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INSTITUTIONALIZING THE BUY OUR SPARE PARTS (BOSS)  
INITIATIVES WITHIN THE NAVY FIELD CONTRACTING SYSTEM  
(NFCS)(U) NAVAL POSTGRADUATE SCHOOL MONTEREY CA

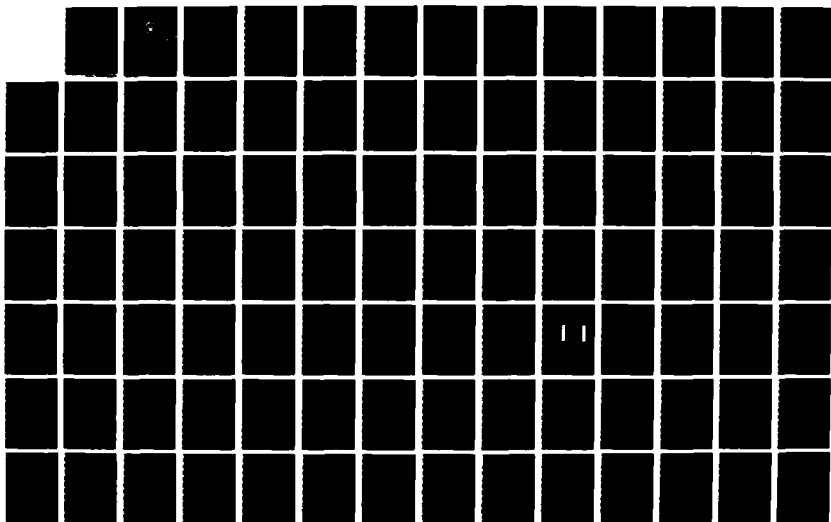
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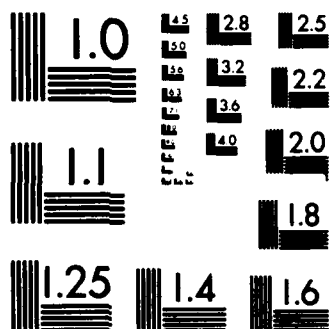
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INSTITUTIONALIZING THE BUY OUR SPARE PARTS  
(BOSS) INITIATIVES WITHIN THE NAVY FIELD  
CONTRACTING SYSTEM (NFCS)

by

Ronald J. Stearns

June 1987

Thesis Advisor:

David V. Lamm

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Institutionalizing the Buy Our Spare Parts  
(BOSS) Initiatives within the Navy Field  
Contracting System (NFCS)

by

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Lieutenant, Supply Corps, United States Navy  
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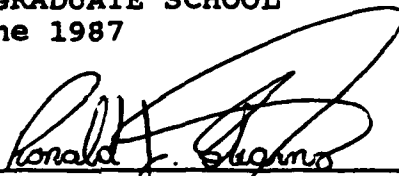
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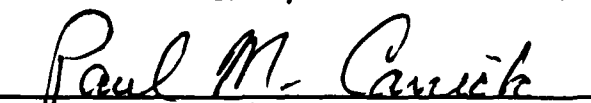
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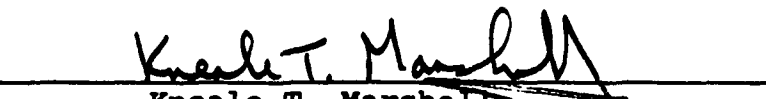
  
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## ABSTRACT

This study examines the Buy Our Spares Smart (BOSS) Program which was established as a result of Defense Department spare parts pricing problems experienced in 1983-1984. The study focuses on how BOSS initiatives might be institutionalized in the Navy Field Contracting System (NFCS).

The study reviews the BOSS organization, initiatives, and the current status of the program. The study examines methods which would facilitate effective incorporation of the BOSS initiatives within the NFCS and analyzes problems and issues related to these methods.

The researcher found two alternative methods of integrating the BOSS initiatives. The first is use of the Productive Unit Resourcing System (PURS) to incorporate continued BOSS Program funding. The second is to fold the maturing BOSS Program into the Competition Advocate General Priority Objectives. Recommendations concerning these two alternatives as well as modifications to current regulations and the breakout process are presented.

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## I. INTRODUCTION

### A. BACKGROUND

The ability of the nation to deter aggression and defend its vital interests has long depended upon a healthy private defense industry that functions as part of a free enterprise economy. The special relationship of the military working with private industry, in a competitive environment, has served this country well in preserving democracy for over 200 years.

To maintain our way of life however, does require the military to function well beyond our shores. The capacity to fight or deter aggression hinges on the ability to project fighting forces where and when they are needed and to sustain them for as long as they are needed. If one looks at any defense periodical, the recurring issues today are Readiness and Sustainability. These two issues, in the midst of crisis in the Middle East, Afghanistan and South America, are the backbone of today's national defense posture. Subsequently, the availability of spare parts is a key determinant to this nation's readiness and ability to sustain the military in a conflict.

Spare parts for the Department of Defense in Fiscal Year 86 totalled more than four million inventory items which

comprised approximately \$22.4 billion in the Department of Defense budget. [Ref. 1:p. 1]

A spare part can be anything from an inexpensive non-critical bolt to a highly critical fuel regulator costing thousands of dollars. However, closely controlled and audited, these big-ticket purchases generally are not part of the recent pricing problem. More often the media reports of overpricing have focused on low-value, low-visibility spare parts such as \$435 hammers, \$110 diodes, and \$1100 stool caps. To further complicate the issue is the unfortunate connotation by the public of the word "spares." Whether applied to low-cost or high-cost items, it suggests something unneeded or extra and distorts the true ramifications of the pricing issue. Given the impact of technology on modern logistics, replenishment parts for military equipment are not "spare" in the traditional sense of the word. Rather, a spare is purchased not because it may be needed, but because it will be needed. Unfortunately, the Department of Defense was subjected to the following headlines:

"FEDERAL SUPPLY PARTS COULD SAVE NAVY SPARE CHANGE"

"PENTAGON SAID TO WASTE BILLIONS ON SPARE PARTS"

"NAVY BUYING SYSTEM ASSAILED"

"PENTAGON WARNED ON PARTS BILLS"

As a result of these headlines and reports of "pricing horror stories," the Department of Defense (DOD) was

subjected to an intense investigation of how it conducts business. It soon became clear that the public was concerned, since the American taxpayer has the right and duty to demand a full return on their tax dollars, especially those used for national defense. Not unexpectedly, revelations about \$435 hammers and \$30 machine screws caused many taxpayers to question the management capabilities of not only the government but also the integrity of defense contractors. An Office of Federal Procurement Policy (OFPP) report on this same subject confirmed that the procurement process for spare parts had problems. It added that while:

horror stories have created a public perception of a problem far more common and pervasive than is actually the case, they do serve as a warning that additional management attention is needed. [Ref. 1:p. 2]

The indictment of spare parts pricing is serious not only because it suggests waste, but also because it erodes credibility of vital defense programs and effectively undermines our ability to buy the military protection the country requires.

As Congressional and news media continued to build, regarding the spares issues, the Department of Defense began serious efforts to identify and correct the problems that lead to overpricing. In fact, DOD studies as early as 1963 documented the existence of problems with spare parts pricing, exhibiting the same symptoms then as now. [Ref. 2:pp. ii,iii] Department of Defense programs were

introduced as early as November 1964 covering breakout of certain spare parts from major systems contracts in order to buy parts directly from manufacturers to obtain lower prices. [Ref. 3:p. 84]

This initiative was revised and expanded in June 1983 as one of the early significant elements of a new major spare parts reform effort by DOD. As a result, on 25 July 1983, Secretary of Defense, Casper Weinberger, issued a 10-point outline which was followed by a twenty-five point plan of how the Military Departments should proceed to correct the problems that existed in the acquisition of spares. [Ref. 4,5]

Today, over three years after the Secretary of Defense issued his plans, many of the same basic problems cited in 1963 and again identified in 1983 continue to exist. [Ref. 6:pp. 62-70] This was reinforced as recently as June 1986 when the President's Blue Ribbon Commission on Defense Management (Packard Commission) reinforced the fact by stated:

. . . for example, government insistence on rigid custom specifications for products, despite the commercial availability of adequate alternative items costing much less; the ordering of spare parts so late in a program, after the close of the production line, that they must be expensively hand tooled; the use of unsuitable cost allocation procedures that grossly distort prices of inexpensive spare parts; the buying of spare parts in uneconomic small quantities and hence at higher prices; and the simple exercise of poor judgement by acquisition personnel. [Ref. 6:p. 44]

This is not to say, however, that significant progress has not occurred. In fact, in response to the Secretary of Defense directive, each service and the Defense Logistics Agency (DLA), embarked on ambitious reform programs with considerable resolve. These programs involved retrenching in the areas of commitment to procurement personnel resources, training, competition, data management, and spare parts breakout. Competitive procurement methods are being sold to Congress as the key to controlling costs in procurement. [Ref. 7]

Prompted by the Chief of Naval Operations, the Navy designed in 1983 the Buy Our Spares Smart Program or "BOSS." BOSS was assigned to the Naval Supply Systems Command (NAVSUP) under the PML-550 program direction. Under this program's umbrella, over 126 initiatives, in response to those identified by the Secretary of Defense, have been undertaken and have significantly changed the way the Navy acquires spare parts. As a result of BOSS, the Navy has saved a total of \$902 million in fiscal years 1984-1986 with an investment of \$188 million. [Refs. 8,9,10] BOSS as a program, has helped minimize the future occurrence of "horror stories" and has helped restore public and Congressional confidence in the Navy's ability to overcome acquisition problems and use resources effectively. However, PML-550 is a project office which is programmed for funding only through 1991. As a result, the major thrust of

Project BOSS is to identify and institutionalize the changes necessary to enable the Navy to buy high quality spare parts at fair and reasonable prices. To ensure long term institutionalization of the changes brought about by the BOSS Program, financial and management commitments must be maintained in future years. It is in this area the researcher has devoted study effort.

#### B. FOCUS OF RESEARCH

The area of research will focus on institutionalizing the Buy Our Spares Smart Program. The accomplishment of BOSS reflect how increased management attention in concert with the investment of resources can indeed reduce the cost of spare parts. To ensure long term effectiveness of the changes initiated, the financial and management commitments must be maintained if change is to become a part of the fabric of the of the Navy's Acquisition and Logistics process. Currently, the status of BOSS reflects that 88 of 126 initiatives have been completed. The researcher will focus on the completed, continuing, and open initiatives while looking at the methods of institutionalization for each.

#### C. OBJECTIVES OF THE RESEARCH

The basic purpose of this study is to discuss the methods of institutionalizing BOSS Program initiatives into the Navy's Acquisition and Logistics process. The

researcher sought to determine what the current methods of BOSS institutionalization were and their effectiveness. The researcher also sought to identify additional methods that would facilitate effective integration of the BOSS Program initiatives. The identification of these integration methods would enhance the reduction in costs for spare parts procurement and provide viable avenues for institutionalizing future BOSS Program initiatives.

#### D. RESEARCH QUESTIONS

The primary research question was:

What actions are required to effectively incorporate the Buy Our Spares Smart (BOSS) Program Initiatives into the Acquisition and Logistics process?

Subsidiary research questions were:

1. What are the BOSS Program's principal areas of concern and what are its components, goals and objectives?
2. How are BOSS goals and objectives implemented into the Navy's regulatory directive and instruction system?
3. How have the BOSS initiatives been implemented at the field activities?
4. How can the competition advocate at the field level facilitate the institutionalization process?
5. How might the Automated Procurement and Accounting Data Entry System (APADE) facilitate the implementation of BOSS Program Initiatives?

#### E. RESEARCH METHODOLOGY

The information used in this thesis was obtained from several sources. First, a review of the existing literature



was conducted to obtain an understanding of spare parts pricing issues and the Navy's Buy Our Spares Smart Program. The literature review was conducted primarily through the Defense Logistics Studies Information Exchange (DLSIE) and the BOSS Annual Reports. Additional information was obtained from other research studies and thesis, as well as current Federal directives and instructions listed in the bibliography.

Secondly, research data were obtained through direct questioning and discussions at Navy Field Contracting System Activities, PML-550, and through telephone interviews. The interviews were conducted to obtain responses on the process of institutionalization of the BOSS Program initiatives. Interviews were conducted on a non-attributable basis in order to obtain honest and candid opinions.

Third, observation at field level activities was conducted to focus on patterns of BOSS Program implementation and identify barriers to full institutionalization of the BOSS Program Initiatives.

#### F. SCOPE OF THE STUDY, LIMITATIONS, AND ASSUMPTIONS

The scope of this thesis is to identify and analyze the factors used in institutionalizing the BOSS Program initiatives. It is not the intent of the researcher to develop a universal system for program institutionalization, but rather, to study the current process within the BOSS Program and the criteria used in determining that a BOSS

initiative has been completed. The research is intended to develop a list of key factors, evaluate their interrelationships and provide recommendations for their application in the decision making process.

This study is limited to the identification of methods of institutionalization and variables to consider in working with a major program. This study does not attempt to develop a standard checklist to be used as a guide or directive in institutionalization.

The research is designed to identify those unique problems inherent in the institutionalization of a program and identify barriers and effective integration methods that hinder or facilitate the process.

It is assumed that the reader is familiar with standard Department of Defense acquisition concepts and terminology as well as the spare parts procurement process.

#### G. ORGANIZATION OF THE STUDY

This thesis is organized into six chapters. Chapter II provides an introduction to the Navy's spare parts acquisition process within the larger context of the major systems acquisition process. An overview of the Navy's Buy Our Spares Smart (BOSS) Program is provided as well as how the program affects activities within the Navy Field Contracting System (NFCS). Chapter III is a presentation of the issues related to institutionalizing change within the Navy and some of the specific problems encountered within

the BOSS Program. This chapter discusses the data gathered during interviews and literature research on the institutionalization process within the BOSS Program. Chapter IV is an analysis of the issues and identifies alternative methods of institutionalization identified during the research process.

Chapter V is a discussion of the implications and consequences of utilizing the different methods of institutionalization. Finally, Chapter VI provides the conclusions and recommendations for utilizing these methods in making sensible decisions for institutionalization of the BOSS Program Initiatives within the Navy Field Contracting System activities.

## II. FRAMEWORK AND BACKGROUND

### A. INTRODUCTION

In the United States, the 1970's were a decade of military spending restrained by the efforts of detente. Our outlays for national defense declined by 20% while the Soviet Union continued one of the greatest peacetime military expansions in history. The result was by 1980, the United States had an ill-equipped Army, too many aircraft grounded for lack of parts, and ships that could not leave the pier. [Ref. 11:p. 3] By the end of the decade however, the Carter administration and the American people, realized that unilateral restraint was unenforceable and subsequently not working. There became an increasing push for higher defense spending and revitalization of the military forces. In 1981, the Reagan administration took office promising to restore defense spending and rebuild world confidence in U.S. military capability. [Ref. 11:p. 4]

However, in 1983, "horror stories" of \$110 diodes and \$435 hammers had a dramatic effect on the way the public and Congress perceived our use of public funds. The resulting Congressional and public interest resulted in the Department of Defense taking a hard look at the spare parts buying and selling process. At first, as in the case of the \$110

diode, it appeared that the excessive price was due to the pricing concept used and not the actual cost of the item. In this situation, formula pricing was used in an attempt to avoid the inefficient and labor intensive process of cost element detailing. Cost element detailing required identifying the procurement of the material and following the part as it goes through manufacturing, inspection, packaging and shipping. For example, Table 1 reflects the purchase of two line items from the contractor. In example A, material handling labor costs were based upon a pre-negotiated quantity and rate to be applied in an equal amount to each line item being purchased which in this case is a diode and a power supply. Although the pre-negotiated quantity and rate may have reflected accurate historical average material handling costs incurred per line item, the use of average costs distorts the price of the relatively inexpensive diodes for which practically no material handling effort was expended and correspondingly, this method understates the price of handling the power supply. A reallocation of the same quantity of material handling labor hours on the basis of total purchased parts cost as in example B of Table 1, results in more reasonable unit prices. Thus the \$110 diode has been described as "apparent overpricing" as opposed to "real overpricing" as the contractor was entitled, under the Cost Accounting Standards (CAS) and Department of Defense (DOD) cost principles, to

TABLE 1  
THE \$110 DIODE

Example A

Material Handling Labor Cost  
Distributed Equally Between Contract Line Items

	<u>Diode</u>	<u>Power Supply</u>
Purchased Parts (2/\$.04)	\$ .08	(6/\$100) \$ 600.00
Direct Labor Hours		
9.0 @ \$18.00 = \$162.00	81.00	81.00
Overhead		
94% of Value Added	<u>76.14</u>	<u>76.14</u>
Total Cost Input	\$157.22	\$ 757.14
G&A @ 21%	<u>33.02</u>	<u>159.00</u>
Total Cost	\$190.24	\$ 916.14
Profit @ 16%	<u>30.44</u>	<u>146.58</u>
Total Price	<u>\$220.68</u>	<u>\$1062.72</u>
Unit Price	<u>\$110.35</u>	<u>\$ 177.12</u>
Contract Price		<u>\$1283.40</u>

Example B

Material Handling Labor Cost  
Prorated on Basis of Total Purchased Parts Cost

	<u>Diode</u>	<u>Power Supply</u>
Purchased Parts (2/\$.04)	\$ .08	(6/\$100) \$ 600.00
Direct Labor Hours		
9.0 @ \$18.00 = \$162.00	.02	161.98
Overhead		
94% of Value Added	<u>.02</u>	<u>152.26</u>
Total Cost Input	\$ .12	\$ 914.24
G&A @ 21%	<u>.03</u>	<u>191.99</u>
Total Cost	\$ .15	\$1106.23
Profit @ 16%	<u>.03</u>	<u>176.99</u>
Total Price	<u>\$ .18</u>	<u>\$1283.22</u>
Unit Price	<u>\$ .09</u>	<u>\$ 213.87</u>
Contract Price		<u>\$1283.40</u>

SOURCE: Lavender, W.R., The Spare Parts Cost Center Concept as a Means of Improving Spare Part Pricing: A Case Study. M.S. Thesis, Naval Post Graduate School, December 1985, Table I.

recover the costs included in the distorted unit price [Ref. 12:p. 27]. However, the perception by Congress and the public was that contractors were overcharging the Government. This made application of the equal allocation method in conjunction with formula pricing unacceptable in the public eye.

Does this example then indicate the 1983 "horror stories" were merely administrative or simply allocation problems could be easily solved? The answer was, unfortunately, no. Further investigation revealed the "horror stories" were more than isolated instances. In FY 1983, a DOD-wide audit of spare parts procurement resulted in reviewed 621 Navy parts with the following conclusions regarding 621 Navy parts:

- 58% of the parts (363 items) were obtained at reasonable prices.
- 35% of the parts (215 items) were acquired at prices the auditors determined to be unreasonably priced.
- 7% of the parts (43 items) were obtained at prices whereby inadequate data prevented the auditors from making a conclusion as to reasonableness. [Ref. 13]

The audit told a story of an overclericalized and undermanned system of buying and an often short-sighted system of selling. Investigations found recurring examples of over reliance on prime contractors, unreasonable cost allocation methods, antiquated ADP systems, unsupported claims of proprietary rights, and contractor mark-ups on "pass through" items with no value added. [Ref. 13] The

irony of the "horror stories" is that they were discovered by DOD auditors and inspectors. A special unit was then formed to prosecute defense related fraud cases. [Ref. 14:p. 2]

The Department of Defense acknowledged the problem and acted promptly and decisively to correct the situation. On 25 July 1983, Secretary of Defense Casper Weinberger issued the following policy statement:

Our recent audits and investigations of aircraft spare parts accounts demonstrate conclusively that we must make major changes in the way we order and purchase spare parts. The directive we instituted in March 1981 to increase competitive bidding and hold down prices has not been enforced vigorously enough throughout the Defense Department. To ensure that we are not plagued with pricing abuses in the future, we have developed and put into place a ten-point program. It is our joint responsibility to see that all civilian and military personnel in the procurement branches of the department comply with these procedures.

First, we should offer incentives to increase competitive bidding and reward employees who rigorously pursue cost savings. Actions such as the Air Force's percent award of a 1100 dollar bonus to the Air Force sergeant who uncovered excessive overpricing on a spare part should be continued and given your personal attention.

Second, I expect you to take stern disciplinary action including reprimand, demotion and dismissal of those employees who are negligent in implementing our procedures.

Third, I have directed Deputy Secretary Thayer to work with the service secretaries to alert defense contractors to the seriousness of the problem and of our firm intention to keep prices under control. We expect them to ensure that their employees also pursue fair pricing practices by undertaking disciplinary action when necessary or rewarding employees where appropriate. I will carry this message to defense contractors in Hartford, Connecticut in a speech I will give there later this week.

Fourth, now that all of the services have competition advocates in place in their buying commands, I expect those competition advocates to challenge orders that are not made competitively or appear to be excessively priced



and I expect our procurement officers to heed their advice.

Fifth, we simply must refuse to pay unjustified price increases. I know the Air Force now carefully checks price increases on aircraft spare parts. If the price increase is excessive, the Air Force is refusing to pay it. Such efforts are already underway in the other services and they should continue to receive the highest priority. To assist you in these efforts, the Defense Contract Audit Agency will work with your contract administration offices to strengthen spare parts purchases.

Sixth, we must accelerate reform of our basic contract procedures. The inspector general's recent investigations underscore the importance of reforming our basic contract procedures to encourage competition, preclude overpricing and, as an added insurance, give us the legal right to recover excessive payments. For example, many of our existing basic ordering agreements routinely carried a price redeterminable clause which allowed the manufacturer to set the price for repeat orders of spare parts. You should continue to phase out existing portions of ordering requirements which allow the manufacturer to redetermine prices and make every effort to obtain firm fixed-price contracts. We must redouble ongoing attempts to increase the number of contracts open for competitive bidding.

Seventh, we must take steps to obtain refunds in instances where we have been overcharged. In those contracts where we have the right to reduce an excessive price and set a more equitable price, we should not hesitate to exercise that right. If we have to, we should sue a contractor to recover unjustified payments. In some cases the contracts we signed may not give us the legal right to a refund. In these instances, the services and the department should aggressively pursue refunds through discussions with senior managers of the company similar to those Secretary Lehman is currently conducting with the Sperry Corporation and Gould Simulation Systems Inc. We should convey to them our strong belief that it is in the best interests of both the Department of Defense and the defense industry to have contractors voluntarily refund any payments that are clearly exorbitant and unjustified.

Eighth, where alternative sources of supply are available, we should cease doing business with those contractors who are guilty of unjustified and excessive pricing and who refuse to refund any improper overcharges. If alternate sources, domestic or foreign, are not available, we will do our best to develop such sources rapidly. In December 1982, we significantly strengthened our procedures for suspending and disbarring irresponsible contractors. We should exercise those administrative powers in a timely

manner or within 30 days of indictment or conviction of a contractor.

Ninth, our audits and investigations of spare parts will continue. In addition to the eight audits the Inspector General has already conducted, service auditors have conducted some 25 others. The Inspector General has six additional audits in progress, and will begin three others in the next few months. These will focus on the broader ramifications of how we buy spare parts, what we pay for them, and how they are used and controlled once they enter the inventory. In addition to investigating aircraft engine spare parts, we will now look at cost growth in electronic spares and contract administration activities. The tenth and final point, is that the Defense Department purchases millions of spare parts worth billions of dollars each year. I think you will agree that in the majority of cases we have been satisfied with the quality and prices of those spare parts. The many fine corporations and dedicated employees supporting our nation's defense should not be maligned as a group for the failures of a few. However, it is our responsibility to ensure that we do not waste one dollar of the taxpayers's money. We must recover unjustified payments we have already made, and where necessary, to expose and take appropriate corrective action against those contractors and employees who are either negligent in performing their duties or are engaging in excessive pricing practices. [Ref. 4]

Following closely on the heels of Secretary Weinburger's ten point plan were 25 additional initiatives, as identified in Appendix A. These were promulgated on 29 August 1983 and required implementation by the services. [Ref. 5]

With the Federal deficit running into the hundreds of billions of dollars and with bipartisan cries for defense budget cuts coming from every angle, it was obvious the Department of Defense could no longer afford business as usual. A new dimension had now been added to the business relationship between the Navy and its spare parts suppliers. Underlying the traditional framework of contracting, there

exists a new emphasis on business sense and public consciousness. In the Navy, the program is called project BOSS (Buy Our Spares Smart) and its objective is to "identify and institutionalize the changes necessary to permit the purchase of high quality spare parts at fair and reasonable prices" [Ref 8: p.1].

#### B. NAVY FIELD CONTRACTING SYSTEM

A large and complex organization, the Navy Field Contracting System consists of over 900 activities which report to the Navy Supply Systems Command (NAVSUP). The largest activities which make up the major portion of the Navy Field Contracting System are the Navy Regional Contracting Centers, Naval Research Laboratories, Naval Supply Centers, Naval Supply Depots, the Ships Parts Control Center, and the Aviation Supply Office. In accordance with NAVSUP Publication 560,

The Navy Field Contracting System consists of all contracting offices of naval activities, including fleet units, except for the following contracting and contract administration offices:

1. Automatic Data Processing Selection Office;
2. Office of the Naval Research, its Branch Offices and its Resident Representatives;
3. Military Sealift Command and its field activities;
4. Marine Corps and its field activities; except for Marine Corps Air Stations which are part of NFCS;
5. Headquarters, Naval Air Systems Command, its Naval Plant Representative Offices and its Naval Aviation Logistics Center;
6. Headquarters, Naval Sea Systems Command, its Naval Plant Representative Offices and its Supervisors of Shipbuilding, Conversion and Repair;
7. Headquarters, Space and Naval Warfare Systems Command; and,

8. Headquarters, Naval Facilities Engineering Command and its field activities. [Ref. 15:p.1.6-1]

The Naval Supply Systems Command provides procurement policies and administrative guidelines for field contracting activities as the Head of the Contracting Activity (HCA) for the Navy Field Contracting System (NFCS).

C. BUY OUR SPARES SMART (BOSS) PROGRAM

When the ten-point plan identified by Secretary Weinberger on 25 July 1983 had been delivered to the service secretaries and then disseminated throughout their echelons, it became apparent that the plan was open to various interpretations and means of implementation. In the Navy, the systems commands began formulating and issuing guidance in the form of messages and formal plans of action as early as 15 days following the announcement of the ten-point plan. The guidance and direction was as diverse as the systems commands themselves. On 17 August 1983 a letter from the Chief of Naval Material to the systems commands, referencing the Secretary of Defense memo of 25 July, directed the addressees to immediately implement eight courses of action to ensure that the taxpayer's money would not be wasted. Of particular interest was the third course of action. It required all Navy contracting offices to include in bold print on the cover sheet of all documents or solicitations for/or containing spare parts requirements the following statement:

Caution to offerors: No contract will be awarded under this solicitation at greater than fair and reasonable prices. [Ref. 16]

This appeared to be a tactic to quickly minimize future "horror stories" and buy some time to establish long term solutions. These long term solutions were already underway at NAVSUP under then COMNAVSUP Rear Admiral A. A. Giordano, SC, USN and became formalized in late August 1983 under the aegis of the BOSS Program.

On 1 September 1983, slightly over one month after the announcement of the Secretary of Defense ten-point plan, Admiral Steven A. White, USN, Chief of Naval Material, formally announced a spare parts pricing initiative called project BOSS (Buy Our Spares Smart). The key elements of project BOSS reflected the Navy's commitment to represent the U.S. taxpayer's interest and insist on spare parts prices that were fair and reasonable. The project implemented Secretary of Defense Weinberger's ten-point spare parts procurement policy and encompassed numerous individual initiatives focused on all aspects of the acquisition process. The theme of the project was to insure the proper utilization of the Federal Supply System assets while concurrently reducing the cost of those parts which are bought. Good business judgment and the test of reasonableness were the key concepts underlying Project BOSS. Some of the major objectives in obtaining significant savings were to break the hold of weapon systems prime

contractors over the secondary spare parts market and to increase competition. Also, action was identified to sensitize Navy users to the cost of the parts they order so that they may assist in identifying unreasonable prices.

#### 1. BOSS Initiatives

The major thrust of Project BOSS was to identify and institutionalize the changes necessary to enable the Navy to buy high quality spare parts at fair and reasonable prices. [Ref. 9:p. 1] However, because the spares acquisition process was very complex, the Navy simplified the focus of the program by identifying three interdependent goals to ensure that spares and other support items were bought at reasonable prices. The three goals were:

- Breakout parts and equipment from prime contractors.
- Significantly increase the use of competitive procurement.
- Pay only fair and reasonable prices.

There are many elements to each of the above stated goals. Most of those elements were recognized in the 35 initiatives included in Secretary Weinberger's memoranda of 25 July and 29 August of 1983 as identified in Appendix A. The Navy implemented the SECDEF directives through over 100 individual initiatives which attack all aspects of the spares acquisition problem. Today, BOSS encompasses 126 initiatives which incorporates not only the DOD 35-point program, but also audit findings, legislation, and other recommendations which are designed to improve the spares

acquisition process (Appendix B). Thus, BOSS is the Navy vehicle for tracking and monitoring a wide variety of continuing initiatives in many functional disciplines.

Through FY86, of the 126 initiatives identified, 88 have been completed, 29 are still open, 5 are cancelled, and 4 are continuing. [Ref. 10:p. 25]

## 2. BOSS Program Organization

When Project BOSS was announced, it laid the groundwork for essentially changing the way the Navy does business. By channeling resources towards attaining the three interdependent goals of the BOSS Program, the Navy hopes to institutionalize the purchase of high quality spares at fair and reasonable prices. Looking more specifically at the three interdependent goals, the first goal is: breakout parts and equipment from prime contractors. Even though a DOD breakout program has been in existence for more than 20 years, implementation has proven to be a complex and lengthy ordeal requiring revitalization by Defense Acquisition Regulation (DAR) Supplement No. 6. [Ref. 1:p. 27] Breakout is the process of improving the competitive status of replenishment spare parts through the identification and development of other qualified sources. Direction and guidance in this effort is provided in the DAR Supplement No. 6. The objective of the program is to reduce costs by breakout of consumable or repairable replenishment spare parts from other than the prime system contractor

while maintaining the integrity of the system and the equipment within which the parts will be utilized. The program calls for the Government to apply sound engineering and business management in decisions involving the feasibility and economic advisability for removing the restraints to breakout and to competitive procurement discovered during breakout screening.

Screening for breakout candidates is accomplished as early as possible to determine the technical and economical characteristics of a part which will affect it's potential for breakout to competition. DAR Supplement 6 prescribes effective utilization of resources in accomplishing breakout and suggests the application of priorities in assuring the concentration of breakout efforts of those parts which offer the greatest potential for breakout and savings. Breakout is divided into two processes: full screen and limited screen reviews. Full screen breakout is applied to replenishment parts, and is performed well in advance of a planned procurement. Limited screen breakout is a review of an item already in the procurement cycle that covers only the essential points of data and technical evaluation. [Ref. 10]

During the provisioning process, the contractor provides provisioning parts lists (PPLs) which identify those initial parts the contractor recommends the Government procure for fielding the system under production. [Ref.



17:p. 21] The Government evaluates the lists for need utilizing maintenance records and simulation techniques in a process called Logistics Support Analysis (LSA). Once the PPLs are validated, they can be screened for initial assignment of spare part acquisition method codes (AMCs) and acquisition method suffix codes (AMSCs). The AMCs are assigned by Government technical personnel to a part to provide the contracting officer with summary information concerning the acquisition method recommended and sources which may be solicited during acquisition of the part. The AMSCs are assigned to provide additional information about a part such as engineering, manufacturing, and technical data. The assignment of AMC/AMSCs takes into consideration all available data on a part including the prime system contractor's recommendations. These recommendations may include contractor technical information codes (CTICs) which provide information concerning technical data for the part. Contractor recommendations for the assignment of AMC/AMSCs are reviewed and are considered as recommendations and not accepted at face value. [Ref. 18:p. S6-302]

The assignment of AMC/AMSCs includes the establishment of dates for subsequent review and progressive upgrade, if possible, of the competitive status of a part. Competitive status is preferred followed by direct procurement of a part from the actual manufacturer. In the latest submission for revision of the DAR Supplement 6,

procedures for conducting and funding reverse engineering efforts are identified. Reverse engineering is utilized when technical data is unavailable for an item with a significant Annual Buy Value (ABV) but data suitable for competition of future requirements may be acquired through reverse engineering. A five million dollar program was initiated in Fiscal Year 1985 and was expanded to ten million dollars in Fiscal Year 1986. Under full screen breakout, DAR Supplement No.6 requires full screen reviews of all replenishment spares with an ABV greater than \$10,000 which are also coded for sole source procurement. A full screen review entails a 65-step process including data collection, data evaluation, data completion, technical evaluation, and supply feedback. This process is to be performed on items above the \$10,000 threshold with a buy forecasted over the next 12 months. The decision whether or not to breakout the item is based upon technical data available at the Inventory Control Point and the Engineering Support Activity responsible for the life cycle management of the part and its parent system. Full reviews are initiated by the Inventory Control Points (the Navy Aviation Supply Office and the Navy Ships Parts Control Center) and breakout decisions are approved either at the Inventory Control Point, the Engineering Support Activity or the parent Hardware System Command (the Naval Air Systems

Command, the Naval Sea Systems Command, or the Naval Warfare Systems Command). [Ref. 18]

Limited screen breakout can be performed by any procurement activity which also has a technical section such as the Inventory Control Points or the Naval Supply Centers. The breakout decision is made by the procuring activity based upon the data available to the technician on site, or the data which can be furnished in a timely manner by the customer. For this reason, limited screen breakouts usually involve material which is not highly technical in nature and for which it is readily apparent that the sole source contractor adds no value to the product. [Ref. 18]

Since the inception of the BOSS Program, in August of 1983, the Breakout effort has generated the greatest cost savings. During Fiscal Year 1984, there were 5,189 items screened with a 53% success rate (broken out to competition) and accounted for approximately 80% of the cost savings identified by the BOSS Program. In Fiscal Year 1985, there were 10,711 items screened resulting in 6,225 items, or 58% broken out to competition which resulted in approximately 59% of the cost savings effort. In Fiscal Year 1986, there were 17,265 items screened resulting in 7,023 items, or 41% broken out to competition which resulted in approximately 56% of the cost savings effort. [Refs. 8,9,10] Clearly, at the onset of the program, the breakout items were easily identified and the savings were large. As the effort

continues, the dollar savings will decline until an equilibrium is reached where the level of effort applied to the breakout matches the savings accrued.

The second goal is: significantly increase the use of competitive procurement. The Navy program to enhance competition had its official genesis in Executive Order 12352, signed by President Reagan on 17 March 1982. It states in part 1 section d:

In order to ensure effective and efficient spending of public funds through fundamental reforms in government procurement, it is hereby ordered as follows:

Section 1. To make procurement more effective in support of mission accomplishment, the heads of executive agencies engaged in the procurement of products and services from the private sector shall:

- (d) Establish criteria for enhancing effective competition and limiting noncompetitive actions. These criteria shall seek to improve competition by such actions as eliminating unnecessary government specifications and simplifying those that must be retained, expanding the purchase of available commercial goods and services where practical, using functionally-oriented specifications or otherwise describing government needs so as to permit greater latitude for private sector response. [Ref. 19]

This goal was further reinforced in 1983 when a Navy court case was finally decided after more than three years. In his decision, the judge forcefully brought home a fundamental but often overlooked principle of defense procurement:

. . . the requirement to seek competition is a continuing legal obligation, not just a platitude periodically dusted off for seminars and conferences. The Defense Acquisition Regulations (DAR), having the force and effect of law, imposes on procurement officials not only the need to challenge the legitimacy of every sole source procurement,

but the obligation, whenever possible, to shift a procurement from sole source to competition. [Ref. 20]

Routine procurement practices the Navy viewed as proper and even patently sensible were viewed by a Federal District Court as being so contrary to law as to demand punishment.

With the passage of the Competition in Contracting Act of 1984, it appears that healthy competition has encouraged better cost control, lower prices, improved quality, timely delivery, and a stronger industrial base. As competition gains momentum, contractors are being forced to "sharpen their pencils."

An essential ingredient to competition in the Navy has been the establishment of the Navy's Competition Advocate Program. By statute and regulation, the Office of the Navy Competition Advocate General is responsible for "challenging barriers to and promoting full and open competition" in procurement. To ensure program credibility, Secretary Lehman appointed a Navy flag officer as the first Navy Competition Advocate General. There are over 250 Navy and Marine Corps Competition Advocates at hardware systems commands, field contracting offices, and requiring activities throughout the world. [Ref. 21:p. III-6]

Project BOSS operates as the competition advocate for the Naval Supply Systems Command. It monitors and

guides the program within the Navy field contracting system.

As a competition advocate, NAVSUP is responsible for:

- \* Ensuring that opportunities for competition are not lost or constrained due to limited or restrictive requirements, unnecessarily detailed specifications, poor procurement planning, or arbitrary action.
- \* Reviewing requests for non-competitive procurement and taking action to bring about competition in existing and planned procurement.
- \* Tracking procuring activities' performance against Navy competition goals.
- \* Reporting significant achievements in competing contractual requirements.
- \* Assisting procuring activities to improve procurement planning.
- \* Assisting procuring activities to provide competition training for both procurement and requirement generating personnel.
- \* Assisting activities to challenge unnecessarily restrictive data legends.
- \* Assisting in efforts to solicit cooperation from industry to increase competition. [Ref. 21:p. III-6]

To facilitate the competitive process, the Office of the Competition Advocate General also reviews all Justification and Approval (J&A) documents supporting other than full and open competition for procurements over \$10 million. The success rate of the competition effort under the BOSS Program has been considerable as identified in Table 2: [Ref. 10:p. 3]

The third goal is: ensure that we pay only fair and reasonable prices. Project BOSS applies five primary techniques in assuring that prices are fair and reasonable: PRICE FIGHTER "should cost" analysis, the Navy Pricing Hotline, voluntary refunds, improved use of the supply system, and validation of requirements. [Ref. 10:p. 17]

TABLE 2  
PERCENT OF COMPETITIVE DOLLARS

<u>Activity</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>
Inventory Control Points	13.5%	28.0%	33.8%	40.9%
Regional Contracting Centers	42.3	58.2	60.0	69.8
Supply Centers	67.0	73.4	86.0	89.9
Laboratories	44.9	57.5	67.2	71.9
Supply Depots	78.9	84.4	88.0	95.7
All Others	<u>42.2</u>	<u>63.1</u>	<u>77.5</u>	<u>82.4</u>
Total NFCS	32.4%	46.8%	53.2%	64.0%

Source: FY86 BOSS Annual Report

a. PRICE FIGHTER

This is the name given to a small group of engineers, technicians and pricing specialists, operating out of NSC Norfolk, performing "should cost" analyses on Navy spare parts. Target prices established by PRICE FIGHTER are used by procurement personnel as negotiating tools when contracting for an item. Candidates for PRICE FIGHTER review are predominately parts that have a high probability of being overpriced, as well as items identified through the pricing Hotline. During Fiscal Year 1986, PRICE FIGHTER performed a complete analysis on 2,923 line items, including a review of all available drawings and technical data, and physical examination of the part. Of the 2,923 items subjected to this detailed analysis, 822 were judged to be reasonably priced and 2,101 exceeded their target

price. The Navy's Inventory Control Points have used this information to avoid over \$8.9 million in costs. [Ref. 10:p. 17]

b. Pricing Hotline

The Pricing Hotline was established in 1979 at the Fleet Material Support Office (FMSO) to receive customer reports of suspected overpricing and to ensure that each complaint was properly investigated. The Hotline is based on the premise that operating, repair, and maintenance personnel are in an excellent position to know the intrinsic value of spare parts. Since its reemphasis in 1983, over 20,000 items have been identified as having suspect prices. Of the 13,630 cases closed in Fiscal Years' 1984-86, there have been price adjustments taken on 28% of the National Stock Numbers (NSN's) reported by the operational community. Where overpricing was revealed, refunds totalling over \$845,000 have been received by the Navy, DLA and GSA as a result of investigations initiated subsequent to a hotline call. [Ref. 10:p. 19]

c. Refunds

In those instances where excessive prices are being charged for spares, the Navy is making an aggressive effort to obtain voluntary refunds from contractors. Refunds in Fiscal Year 1986 totaled \$2,405,900 compared to \$1,150,900 in Fiscal Year 1985. [Ref. 10:p. 19] Defense



contractors are fully cognizant of the Navy's aggressive commitment to paying only fair and reasonable prices.

d. Challenging Requirements

By using their experience, contracting officials and technicians are able to challenge requirements containing unnecessarily restrictive specifications that can only be met by a single source and are also capable of challenging specifications that exceed the actual requirement. These challenges to the customer have resulted in development of specifications which meet actual needs at a lesser cost, often by competing the procurement rather than using sole source.

e. Procurement of Spares Concurrent with Production of End Items.

Both Navy ICP's are working closely with related Hardware Systems Commands to integrate the purchase of spares for new systems with the production of those same components for installation in the end item. The program, called the Spares Acquisition Integrated with Production (SAIP), resulted in a cost avoidance in excess of \$44 million. This sensible approach to spares procurement is likely to save the Navy billions of dollars. [Ref. 10:p. 23]

Through these interdependent goals, the Navy seeks to institutionalize the BOSS Program Initiatives ultimately allowing the purchase of high quality spare parts at fair and reasonable prices. [Ref. 10:p. 1]

### 3. Institutionalizing Change

To ensure long-term institutionalization of the changes brought about by the BOSS program, financial and management commitments must be maintained in future years. Effective management requires a high level of support, both up and down the command chain, if there is to be continued success in competition, breakout and fair and reasonable prices. The responsibility for managing the Navy spares competition program and Project BOSS belongs to the Naval Supply Systems Command (NAVSUP). To ensure that concepts of BOSS are "institutionalized" throughout the Navy and will survive the test of time, NAVSUP evolved a set of management strategies with the following objectives in mind:

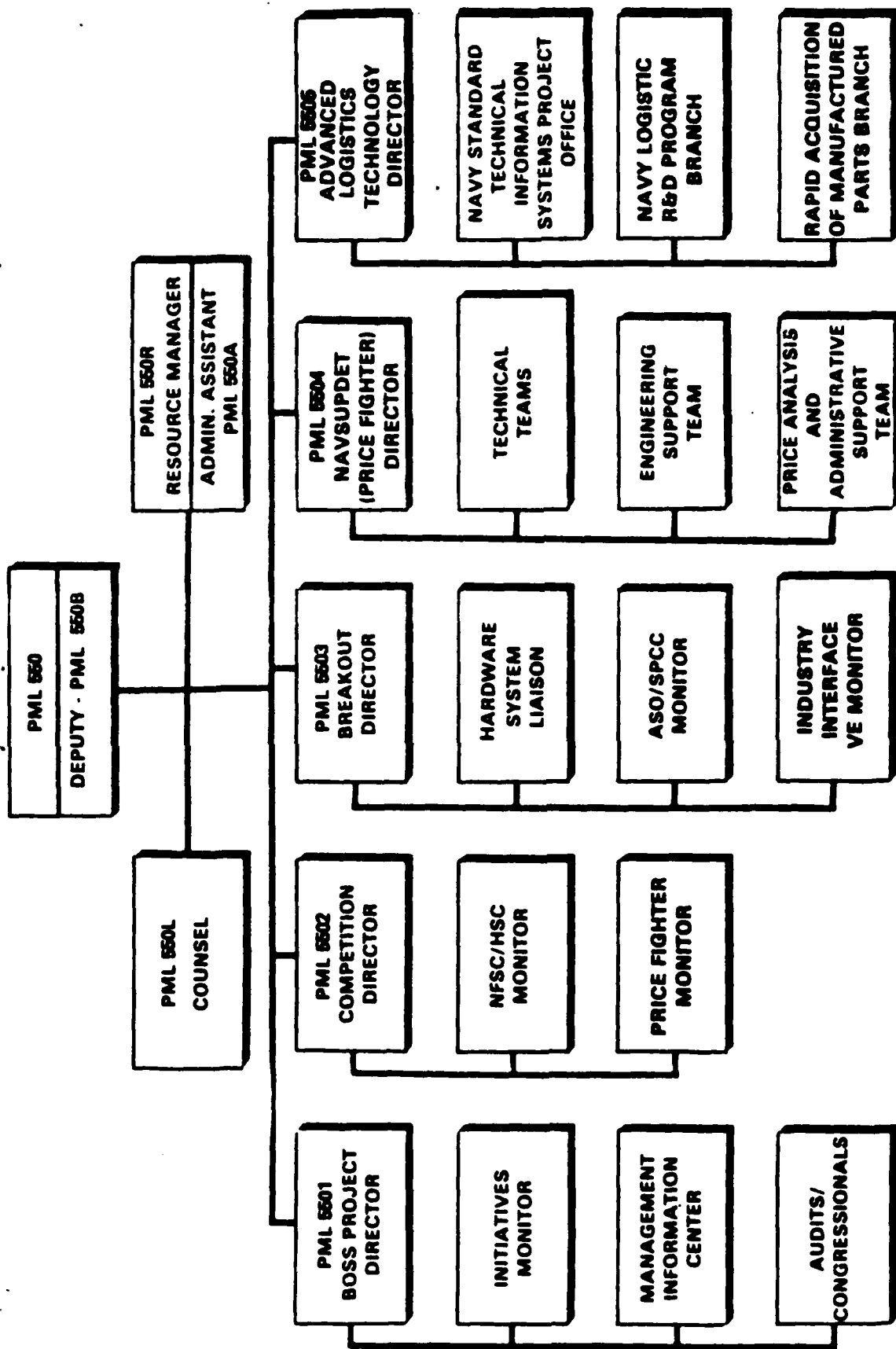
- Integrating the major initiatives related to improving spares acquisition into a coordinated program (BOSS).
- Improving the communication links between engineering, technical personnel responsible for spares design and quality, and the supply/procurement personnel responsible for spares procurement/competition.
- Convincing industry of its role in helping to solve the problems and encouraging specific action on its part to improve spare competition.
- Accelerating the introduction of technology into those spares acquisition functions that can significantly benefit in terms of reducing administrative lead times and improving accuracy.
- Incorporating the acquisition reforms stemming from the BOSS program into the normal organization (institutionalization). [Ref. 22:p. 8]

To facilitate the implementation of these strategies and protect them from organizational pressures, a program office (PML550) was created at NAVSUP to be accountable for strategy in terms of the specific initiatives and the

results. PML550 was created in October 1984 by consolidating the organizational elements which had initiated various pieces of the BOSS Program with the advanced logistics technology effort which priced BOSS. This resulted in a "cradle-to-grave" coverage of major initiatives affecting spares.

The charter for PML550 is identified in NAVSUPINST 5400.10 dated 22 May 1985. The organization of PML550 is identified in Figure 1 and the majority of the BOSS Program effort is contained within the first four branches; PML 5501, 5502, 5503, and 5504. The program management office is identified to have a finite life and the need for its continuation is to be periodically revalidated by SECNAV Assistant Secretary of the Navy, Shipbuilding and Logistics (ASN(S&L)). In Fiscal Year 1986, PML550 was funded through Fiscal Year 1991. The funds finance a combination of civilian end strength, contractor work years and non-labor support items (e.g., training and technical data). The spread of funds and end strength are reflected in Table 3: [Ref. 10:p. 29]

The result of these efforts have been significant cost avoidances. Since the BOSS Program operates on a Return on Investment (ROI) justification, the past cost avoidances have more than justified the continued existence of the project. The cost avoidances are reflected in Table 4 below: [Ref. 10:p. 31]



Source: NAVSUP Instruction 5400.10, Attachment (1) to Enclosure (1), 22 May 1985

Figure 1. Navy Spares Competition and Logistics Technology Program Management Office

TABLE 3

BOSS FUNDING  
(Dollars in Millions)

	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>
NAVAIR	20.4	29.3	34.4	35.0	35.3	35.3
NAVSEA	26.2	42.5	42.8	40.6	48.4	49.3
SPAWAR	5.7	12.7	13.3	12.1	11.7	11.0
NAVSUP	34.4	48.4	60.9	61.9	61.6	63.5
FLEETS	<u>0.0</u>	<u>0.7</u>	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>
TOTAL	86.7	133.6	152.8	151.0	158.4	160.5

Source: FY86 BOSS Annual Report..

END STRENGTH  
(Cumulative)

	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>
NAVAIR	331	320	320	320	320	320
NAVSEA	175	241	391	391	391	391
SPAWAR	28	27	27	27	27	27
NAVSUP	405	685	685	685	685	685
FLEETS	<u>0</u>	<u>45</u>	<u>45</u>	<u>45</u>	<u>45</u>	<u>45</u>
TOTAL	939	1318	1468	1468	1468	1468

Source: FY86 BOSS Annual Report.

Clearly Project BOSS has paid its own way much as would be expected of any efficient business. However, many of the big savings identified early on in the program are becoming harder and harder to find and eventually the program will be faced with a diminishing ROI. It then becomes imperative that the cost saving actions become institutionalized or embedded into the very fabric of day to day procurement actions.

TABLE 4

SUMMARY OF PROJECT BOSS COST AVOIDANCE  
(\$ MILLIONS)

	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>Project BOSS Cumulative</u>
Breakout	\$154.8	\$192.7	\$212.7	\$560.2
Competition	\$ 21.3	\$101.1	\$113.0	\$235.4
PRICE FIGHTER	\$ .5	\$ 1.5	\$ 6.9	\$ 8.9
Spares Acquisition Integrated with Production	\$ 15.9	\$ 25.5	\$ 44.7	\$ 86.1
Economic Order Qty	-	\$ 6.6	\$ 1.6	\$ 8.2
Refunds	\$ .5	\$ 1.2	\$ 2.4	\$ 4.1
Total Cost Avoidance	\$193.0	\$328.6	\$381.3	\$902.9
Less Investment	\$ 35.0	\$ 66.0	\$ 86.7	\$187.7
Net Cost Avoidance	\$158.0	\$262.6	\$294.6	\$715.2

Source: FY86 BOSS Annual Report.

#### D. SUMMARY

The "horror stories" of spare parts pricing in 1983 forced increased attention by the services to correct their buying practices. In July of 1983 the Secretary of Defense issued a ten-point plan of action in an attempt to correct those problems. This was followed in August by 25 additional initiatives. The Navy, in an effort to focus the management attention required and justify the resource dollars needed, created the BOSS Program which incorporated 126 initiatives consisting of the 35 DOD initiatives and an additional 91 initiatives from internal Navy audits and inspections. The use of the BOSS Program as a vehicle to institutionalize

those initiatives has proven to be effective and has resulted in substantial savings for the Navy.

### III. PRESENTATION OF THE ISSUES

#### A. CURRENT STATUS OF THE BOSS PROGRAM INITIATIVES

Due to the Program Objectives Memorandum (POM) process, the probability existed that BOSS Program resources would be bled off to other functions before reaching the procurement and technical operations for which the funds had been targeted. At most activities, the Commanding Officer has a considerable amount of latitude in the distribution of funds within his organization. If the Commanding Officer felt that some of the BOSS Program funds would better serve his organization by directing most of those funds into the inventory branch, he had the discretionary authority to distribute the funds accordingly. However, NAVSUP anticipated this possibility and to ensure the BOSS Program funding to the field activities was primarily for the procurement process, the funding was fenced around BOSS billets as a reimbursable expenditure. [Ref. 23] As a result, NAVSUP was able to institutionalize the billets required to perform the BOSS Program objectives. The number of billets required to perform BOSS functions were targeted by each of the field activities and submitted to PML-550 for approval and subsequent reimbursable funding for their effort. This method of funding has been in effect until



recently. The budget for FY 87 provides direct funding vice reimbursable funding. [Ref. 23]

Currently, much of the determination of the resource/budget dollars to be provided to an activity depends on its return on investment (ROI) dollars which is a more business like method of measuring the cost of the BOSS Program effort versus the returns on savings achieved. [Ref. 24] In order to make ROI a credible figure, an analysis by the Fleet Material Support Office (FMSO) in 1984 in conjunction with OP-91 (Analysis Side Budgeting) resulted in identifying the BOSS Program as real and that the savings were auditable. [Ref. 10] As identified in Table 4 in Chapter II, the savings were real and the ROI was approximately 5 to 1 during FY 86. Based on the information presented thus far, one might conclude that the supporting mechanisms or resources appear to be effectively in place and/or institutionalized. However, based on the recent change to direct funding, a local Commanding Officer may see fit to divert those resources to other areas outside the procurement arena. Clearly, the reimbursable funding process institutionalized the billets required to perform the BOSS Program objectives. The question that remains is under direct funding will those billets be incorporated into the fabric of the organization and become part of the norm or will they be subjected to the pressures of tight budget constraints within the parent activity?

The reinforcing mechanisms such as regulations, directives, instructions and programs have been the second most important factor in the effectiveness of institutionalizing the BOSS Program initiatives. Many of the initiatives have been included as clauses in the Defense Federal Acquisition Regulations Supplement (DFARS) such as:

- Review of price increases greater than 25% or more on an annualized basis.
- Encourage contractors to tell us when we are not buying an economical order quantity.
- Mandatory Refunds clause.
- Encourage contractors to identify items which they do not make or add no value. [Ref. 23]

Whether the institutionalization of an initiative is through a regulation, directive, instruction, or program, the test to determine if further impetus from headquarters is necessary is determined by answering three basic questions:

First--what was the initial objective?

Second--has that objective been accomplished?

Third--if it were to be dropped as an initiative, what impact would there be on the continued performance towards that objective?

If these three tests are answered, the decision as to whether an initiative has been institutionalized or not is straightforward. The next issue to address is the status of the BOSS initiatives.

Of the 126 initiatives identified within the BOSS Program, three interdependent goals were identified: Breakout, Competition, and Fair and Reasonable Prices. A further breakdown of the BOSS Program initiatives reveals

the following action categories: Requirements Determination, Breakout, Competition, Method of Procurement, Pricing, Price Surveillance, Contract Management, Training, Automated Systems, Resources. These categories are discussed in the following paragraphs (See Appendix B for detail). [Ref. 10]

1. Requirements Determination (RD)

This category has nine internal actions designed to review and improve the provisioning process since it is the first step in establishing prices for future buys. For example, Initiative R-001 requires review of contractors' support packages. One of the steps has been to eliminate common use items from support packages provided by contractors. Many items such as hand tools are provided with repair kits at excessive prices because of uneconomical quantities ordered and the uniqueness of the kit. The Navy is attempting to change this process and utilize the Navy Supply System where possible. BOSS personnel are reviewing contractor provided packages and purging unnecessary items from the package. This initiative is one of the four that have not been completed within this category.

Another example is RD-003 which is a review of Economic Order Quantity (EOQ) Models. The goal is to review EOQ models used by the Aviation Supply Office (ASO) and the Ships Parts Control Center (SPCC) to ensure that small, repetitive buys are combined into larger more economical procurements where possible. This is one of the completed

initiatives in this category. Of the nine Requirements Determination initiatives, six have been completed and three are still outstanding.

## 2. Breakout (B)

There are 34 initiatives within this category. Breakout is a review of sole source coded items to determine whether it can be obtained from a contractor other than the prime. For example, B-004 identifies the need to fund the required data for reprocurement during the Integrated Logistics Support (ILS) phase of major systems acquisitions. This initiative has not been completed due to the complexity of the issue. The question of how much data is enough and how much we are willing to pay for that data makes this initiative difficult to solve.

On the other hand, B-001 requires implementation of the Defense Acquisition Regulation (DAR) Supplement No. 6 at the ICP's and Hardware Systems Commands (HSC's). This was accomplished in June 1983 and is currently undergoing a revision. [Ref. 25] Of the 34 Breakout initiatives, 25 have been completed and nine remain outstanding.

## 3. Competition (C)

Almost every aspect of Project BOSS touches on competition in one form or another. An example initiative in this category is C-007 which requires the appointment of a Competition Advocate at all activities with \$25,000 procurement authority and a "Competition Advocate of the

Quarter" award program. This completed initiative required the field activity's Competition Advocate to set up a review board to screen and challenge every proposed sole source procurement. Of the 16 Competition initiatives, 14 have been completed and two were cancelled.

#### 4. Method of Procurement (MP)

This category deals primarily with cost reducing techniques already available to procurement personnel but not implemented to the maximum extent possible. An example of a completed initiative is MP-005 which seeks the expanded use of multi-year procurement. Multi-year procurement is a means of obtaining more than one year, but less than five years, requirements in a single procurement. There are six criteria multi-year candidates must meet. The main opponent of the multi-year concept is Congress since it restricts their ability to authorize and appropriate funds each year. It also obligates DOD to a long term commitment which has severe financial penalties if the Government decides to cancel the program. Of the six Method of Procurement initiatives, all six have been completed.

#### 5. Pricing (P)

This category has 14 initiatives designed to research and investigate overpricing of spare parts. Completed initiative P-013 sought increased awareness of the Price Fighter mission. As a result, the Navy's Inventory Control Points have avoided over \$8.9 million in costs

during FY 86, a 400% increase in savings from FY 85. [Refs. 9,10] Of the 14 Pricing initiatives, 13 have been completed and one is being continued. A continued initiative is usually one in which the original objective has been satisfied but that objective has been expanded somewhat and or the initiative requires continued monitoring.

#### 6. Price Surveillance (PS)

Similar to the Pricing category, Price Surveillance is designed to research and investigate overpricing of spare parts but with an emphasis on the methods of detection. For example, initiative PS-005 requires NAVSUP to develop the capability to perform should cost analysis of material to identify items which are overpriced. This was completed with the establishment of the Price Fighter unit in Norfolk. However, this initiative is different than P-013 which sought increased awareness of the Price Fighter mission. Of the 20 Price Surveillance initiatives, 15 have been completed, three have been cancelled, and two are being continued.

#### 7. Contract Management (CM)

This category has seven initiatives that concentrate on contract clauses that will facilitate reduced spare parts prices. One of the major completed initiatives in this category was the required value engineering clause in all contracts for other than standard commercial spare parts and

repair kits costing \$25,000 or more. Value engineering has two main goals. First, a review of overly complicated specifications is made by engineers and, where applicable, data are revised to allow for a competitive procurement. Secondly, a value engineering review eliminates common-use items from kits that are readily available from commercial sources or the Navy Supply System. Of the seven Contract Management initiatives, six have been completed and one is still outstanding.

#### 8. Training (T)

Renewed emphasis was placed on training and many of the goals of the BOSS Program have been emphasized in training sessions. For example, completed initiative T-004 requires every 1102 series procurement specialist to take a cost/price analysis course every three years in order to keep current with cost/price analysis techniques. Of the five Training initiatives, all five are completed.

#### 9. Automated Systems (AS)

This category is designed to increase the automation of the procurement process at Inventory Control Points (ICP's), Stock Points (SP's), and Naval Regional Contracting Centers (NRCC's). These initiatives address the issue of automating the administrative process via the Automation of Procurement and Accounting Data Entry (APADE) System and the automation of data repositories via the Engineering Data Management Information and Control System (EDMICS). For

example, initiative AS-001 requires the increased automation of the procurement process. While this is still listed as an incomplete initiative, the APADE Program has clearly satisfied the basic objective of the initiative. Of the six Automated Systems initiatives, one is complete and five remain outstanding.

#### 10. Resources (R)

This category identifies initiatives that reallocate resources as necessary to enhance the BOSS Program objectives. For example, completed initiative R-001 required the increase of resources (funds/end strength) to enhance competition and pricing at NAVSUP activities to buy spares more effectively. Of the nine Resource initiatives, all nine have been completed.

To summarize, of the 126 BOSS Program initiatives, there are 18 that remain outstanding and three that are being continued. [Ref. 26] Of the 19 outstanding initiatives, 15 or approximately 79% deal with the categories of Breakout or Automated Systems. More specifically, ten or 53% of the outstanding initiatives deal with the Breakout category alone as identified in Appendix B.

### B. FIELD ACTIVITY ISSUES

#### 1. Inventory Control Points

Within the Inventory Control Points (ICP's), the majority of BOSS dollars spent and savings realized are the



result of the breakout process. [Ref. 10:p. 31] Hence, the Breakout category has historically held the greatest number of initiatives and currently accounts for 53% of the remaining initiatives.

The Breakout function within the NFCS has existed for many years. Both major ICP's have been performing the majority of the breakout functions and since the implementation of DAR Supplement No. 6, have intensified those efforts. The Navy Aviation Supply Office (ASO), can make breakout and competition decisions on some 90% of the 240,000 items which it procures; the remaining 10% are flight critical and subject to review by the Naval Air Systems Command (NAVAIR). [Ref. 27:p. 20] With the assistance of the prime contractor, ASO assigns an initial acquisition method code to an item. Parts receive a code that either restricts reprocurement to the prime manufacturer or allows direct purchase only upon approval from the command's engineering staff, permitting the acquisition code to be changed. This process ensures that a new manufacturer's proposed part will meet the same operational and safety requirements as the original part. The decision authority granted ASO by NAVAIR to make decisions on 90% of the line items carried reflects an excellent working relationship between the two activities. This reduces the amount of breakout approval packages that must be submitted to NAVAIR and subsequently reduces the

timetables for completion. Of the breakout packages for flight critical items submitted to NAVAIR, ASO has a very high percentage of acceptance. [Ref. 28] At SPCC however, breakout and competition decisions on sole source items are made by NAVSEA with little authority on the part of SPCC. Currently SPCC assembles the breakout candidate packages and submits them to NAVSEA for approval. SPCC has a much lower percentage of acceptance than ASO and this is in large part due to the lack of engineers at NAVSEA required to accomplish the job. While ASO has, over the years, assembled a cadre of technical engineers, SPCC has not. Additionally, there appears to be a closer working relationship between ASO and NAVAIR than exists between SPCC and NAVSEA. The result has been a more successful breakout program at ASO with some innovative techniques to facilitate the process.

Considering the nine outstanding initiatives within the Breakout category, ASO is currently institutionalizing several of their own. By directly tapping into Sikorsky's computer system, ASO is able to identify the prime's procurement sources for material. Working with other large prime contractors, ASO hopes to achieve real time access to the procurement sources of those prime contractors in an effort to facilitate the breakout selection and source identification process. [Ref. 28] When asked about institutionalizing the BOSS initiatives, most of the ICP

personnel interviewed felt that the breakout and competition initiatives had been institutionalized within their organization. In most cases, regulations, directives, or local instructions were referenced as proof of institutionalization. In addition, specific billets within the command were referred to as BOSS billets. Incumbents perform functions directly related to BOSS initiatives.

2. Naval Supply Centers and Navy Regional Contracting Centers

The breakout efforts within these activities is considerably less than those of the ICP's. The majority of the effort towards integrating the BOSS initiatives is through competition. Additionally, while nearly 50% of the outstanding initiatives can be attributed to the Breakout category, another five, or 28% of the outstanding initiatives are attributed to the Automated Systems category. APADE, an integrated, self-contained program, provides a standardized procurement system that automates the total acquisition process from requisition input to the completion of an awarded contract. It is designed to improve the Navy Supply System's response to shore and fleet activities with increased effective and efficient procurement services. [Ref. 29:p. 39]

Applications in the APADE system are categorized into seven functional areas that will be implemented in five distinct phases during the course of the APADE Project. Table 5 summarizes the breakdown of functional areas and the

phases of the project in which they will be implemented. Each phase integrates a new application feature as they become available. APADE is taught in modules which include, Introduction to Personal Computers, Requisition Input, Inquiry, Requisition Update, Awards, Military Standard Contract Administrative Procedure (MILSCAP), Reports, and Managing in the APADE environment. [Ref. 30:p. 1]

TABLE 5

FUNCTIONAL AREAS OF APADE AND THEIR IMPLEMENTATION PHASES

<u>Functional Area</u>	<u>Phase(s)</u>
Requisition Input/Update Processing	1,2,3
Pre-Award Processing	2,3,4,5
Award Processing	1,4,5
Contract Management Processing	3,4,5
Inquiry Processing	1,2,3,4,5
Report Processing	1,2,3,4,5
System Management Processing	1,2,3,4,5

Source: Navy's APADE Orientation Guide

Although originally targeted for implementation at eight NSC's, and four NRCC's, APADE Redesign II identified an additional twenty-two potential activities that which would significantly benefit from an automated procurement system. Figure 2 provides the initial implementation schedule and milestones for FY 85-88.

While still in early implementation phases, the automated procurement system and data management system are firmly entrenched and will continue in the absence of the

Activity	Quarters by Fiscal Years															
	FY85				FY86				FY87				FY88			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Norfolk	I	I	I	I	I	I	II		III				IV		V	
Puget Sound					I	II			III					V		
Jacksonville							I/II		III					V		
Philadelphia								I/II		III			IV		V	
Newport								I/II		III			IV		V	
Long Beach						I	II		III				IV		V	
Pearl Harbor									I/II/III					V		
Oakland										I/II/III					V	
Washington D.C.										I/II/III		IV			V	
San Diego											I/II/III		IV		V	
Charleston									I/II/III/IV						V	
Pensacola												I/II/III/IV/V				

Source: Navy's APADE Orientation Guide

Figure 2. Navy's APADE Orientation

BOSS Program. In fact, as stand alone programs, APADE and EDMICS appear to satisfy the objectives of many of the outstanding Automated Systems initiatives.

As with the ICP's, many of the personnel interviewed felt that the BOSS initiatives were adequately incorporated into the fabric of their organization through various regulations, directives and instructions. However, most activities indicated that approximately 50% or less of the

BOSS personnel were performing just BOSS related functions. Many of those interviewed felt that BOSS funding provided the means for ensuring quality contracts. As a result, approximately 50% of the BOSS funded billets are performing contract buying and administration jobs. This is not to say that the BOSS Program objectives are not being followed, rather it indicates that a significant part of increasing competition is acquiring the manpower needed to accomplish these goals.

#### C. GENERAL ISSUES

The researcher, through visits and phone conversations with numerous field activities, asked several key questions concerning the integration of the BOSS initiatives. The first question dealt with the current status of institutionalization within their own activity. The responses were varied, but the majority referenced current directives, regulations, and local instructions as evidence. Many identified specific billets and a couple of activities identified their own initiatives to enhance breakout, competition, or automated systems in addition to those identified by the BOSS Program.

The second question dealt with essential requirements for integrating BOSS initiatives. The answers were surprisingly similar in that they centered around two issues; funding and visibility. The funding issue was the most predominate as a decrease in funding would mean

compromising many of the initiatives. One person stipulated that if the funding was not protected in some manner, contracting activities would return to their old ways. In effect, competition would fall victim to sole source and the sweat shop tactics of completing as many contracts as possible, without regard to quality, would return. All those interviewed felt that quality would definitely suffer.

The second issue dealt with visibility. Not everyone felt as strongly about this issue but most of the individuals interviewed identified the need for an independent organization outside the activity's span of control to ensure compliance with the BOSS initiatives. Without such an organization, local commands would be tempted to downgrade the importance of the BOSS initiatives and prioritize efforts elsewhere.

A third question dealt with the finite life of PML-550 and if it no longer existed, what avenues should be utilized to ensure continued leadership concerning BOSS initiatives. From a funding aspect, most felt that the continued direct funding would allow them to continue with the BOSS effort. However, a few interviewees stipulated that the funding would need to be a separate line item or a similar mechanism to prevent a "bleeding off" of those funds. One individual suggested the funding could be incorporated into the Productive Unit Resourcing (PUR) System currently being implemented at many field activities. From a visibility

aspect, approximately half of those interviewed thought the responsibility for BOSS initiatives oversight should be given to the Competition Advocate Program. Most of those felt that it would require this kind of organization and oversight to ensure the original intent of the BOSS initiatives were being met. Additional concerns were that funding for such efforts would not be diverted. The other 50% interviewed felt that the promulgation of directives and regulations provided sufficient visibility and if properly implemented would ensure continuation of the BOSS initiatives.

#### D. SUMMARY

The BOSS Program is a mature program with only 19 of the original 126 initiatives still outstanding. The majority of the initiatives have been integrated into the working fabric of the field activities through funding and various regulations, directives, and instructions.

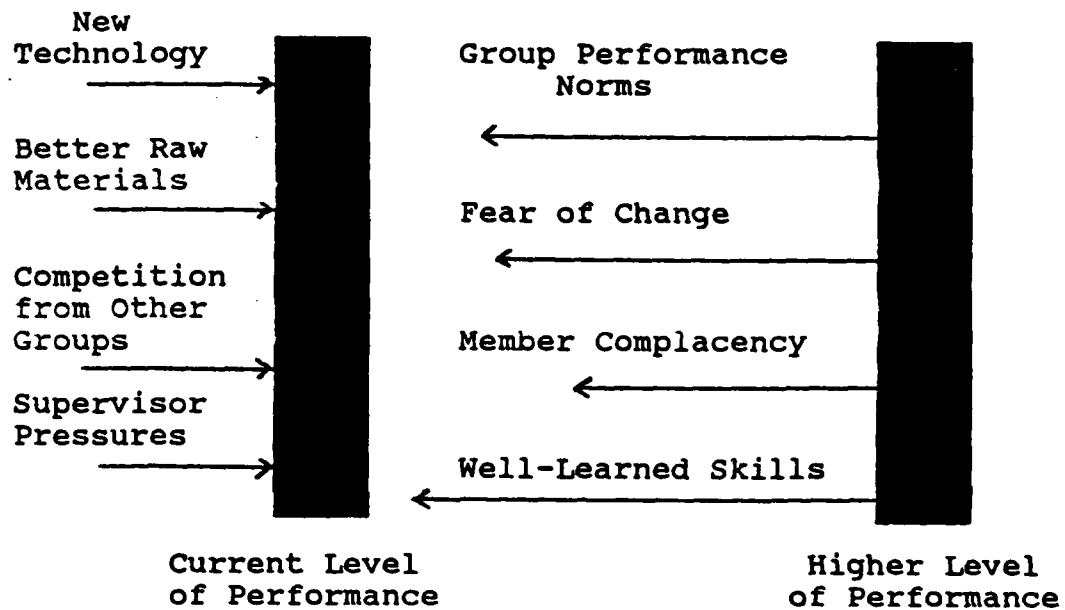


#### IV. ANALYSIS OF THE ISSUES

##### A. ISSUES RELATED TO INSTITUTIONALIZING CHANGE

According to the "force field" theory of Kurt Lewin, any behavior on the part of an individual or organization<sup>\*</sup> is the result of an equilibrium between driving and restraining forces. [Ref. 31] The driving forces push one way and the restraining forces push the other. The result is often a reconciliation of the two sets of forces. While Kurt Lewin did not specify the military environment in particular, many of the same factors in resisting change still apply. An increase in a driving force may improve performance in a specific area but at the same time, increase the restraining forces elsewhere. For example, a contracting officer at a Naval Supply Center believes he can improve the competition statistics within his activity by telling his buyers that no leave will be approved until a goal of 95% competition has been achieved. While the goal of 95% may indeed be reached, the likely negative response of distrust, hostility, and greater resistance may manifest itself in other areas such as reduced customer satisfaction statistics or increased procurement acquisition lead times (PALT). While it is natural for most organizations to push for change there is also an equal tendency to push back. Thus, driving forces tend to activate their own restraining forces. However, if

one were to decrease those restraining forces, a more effective way to encourage change could be achieved. Kurt Lewin's model (Figure 3), identifies that there are multiple causes of behavior rather than a single cause.



Source: Kurt Lewin, Field Theory in Social Science, Harpers and Brothers 1951.

Figure 3. Kurt Lewin Model

Thus, as in the contracting example, the contracting officer might get better results by first analyzing the restrictions or barriers his buyers face in accomplishing a 95% goal.

Lewin also noted that individuals experience two major obstacles to change. First, they are unwilling or unable to alter long established attitudes and behaviors. This can be in the form of an untrained workforce that is resisting automation. The second major obstacle is that change frequently lasts only a short time. This problem is a major concern of PML-550 and the BOSS Program. In short, what measures can be taken to ensure the initiatives of the BOSS Program continue in the absence of a Program Office?

A useful model developed by Edgar H. Schein identifies a three step process in effecting organizational change. The process involves "unfreezing" the present behavior pattern, "changing" or developing a new behavior pattern, and then "refreezing" or reinforcing the new behavior. [Ref. 32:pp. 243-247]

1. Unfreezing involves making the need for change so obvious that the individual, group, or organization can readily see and accept it.
2. Changing requires a trained change agent to foster new values, attitudes, and behavior through the processes of identification and internalization. Organizational members identify with the change agents' values, attitudes, and behavior, internalizing them once they perceive their effectiveness in performance.
3. Refreezing means locking the new behavior pattern into place by means of supporting or reinforcing mechanisms, so that it becomes the new norm. [Ref. 32:pp. 243-247]

From the Navy's perspective, the unfreezing occurred shortly after the reported "horror stories" in the newspapers. The unfreezing was further reinforced by the 35 initiatives issued by the Secretary of Defense in an effort

to combat the spares parts pricing problems. Consequently, the Navy had been sensitized to the problem and it was obvious that action was necessary. The question then became, what is the appropriate change agent? While there were many ongoing initiatives to reduce spare parts prices prior to the publishing of the "horror stories", there was clearly little coordination between the efforts of each initiative and lack of a single face to Congress and the American taxpayers. Considering the number of initiatives to be addressed and the need to place responsibility on one organization, the BOSS Program was created. To ensure the integrity of funding for the BOSS Program and the focus of spare parts pricing actions, a separate Program Management Office (PML-550) was created. Thus, the BOSS Program under PML-550 became the change agent which fostered new values, attitudes and behavior in the way the Navy conducts its procurement business.

Considering the finite life of PML-550, the issue then becomes the refreezing or locking in of the new behavior so that it becomes the norm. Two principal components will lock behaviors into place: supporting mechanisms and reinforcing mechanisms. [Ref. 32:pp. 243-247]

Supporting mechanisms are usually in the form of resources. In the case of the BOSS Program, a tremendous amount of resources in terms of people and funds have been utilized in accomplishing their goals/objectives. The

additional resources were welcomed in an often overworked, underpaid, and overclericalized field contracting system. Many activities saw the BOSS Program as a source of funds to offset local command budget constraints. The additional management attention and performance requirements identified by the BOSS Program would not have been possible if the supporting mechanisms had not been provided. [Ref. 23]

The reinforcing mechanisms are the regulations, directives, instructions, and programs that provide specific guidance on policy implementation. These mechanisms can be as broad or comprehensive as the Government's Federal Acquisition Regulations (FAR) or as specific as a Naval Supply Center Instruction. [Ref. 32]

The success or failure of locking behaviors into place is dependent on the organizational and individual resistance to change. Table 6 developed by Kotter and Schlesinger offer six ways of overcoming resistance to change. [Ref. 33:pp. 107-112]

In the Navy, the sixth approach (explicit and implicit coercion) is generally used. While there is clearly a place and time for explicit and implicit coercion within the military, it should not be the standard course of business. In the field of contracting, participation and involvement of subordinate personnel is essential if the change initiator or BOSS Program is to be successfully institutionalized.

TABLE 6

<u>Approach</u>	<u>Commonly Used When . . .</u>	<u>Advantages</u>	<u>Disadvantages</u>
1. Education + communication	There is a lack of information or inaccurate information and analysis.	Once persuaded, people will often help implement the change.	Can be very time-consuming if many people are involved.
2. Participation + involvement	The initiators do not have all the information they need to design the change, and others have considerable power to resist.	People who participate will be committed to implementing change, and any relevant information they have will be integrated into the change plan.	Can be very time-consuming if participants design an inappropriate change.
3. Facilitation + support	People are resisting because of adjustment problems.	No other approach works as well with adjustment problems.	Can be time-consuming, expensive, and still fail.
4. Negotiation + agreement	Some person or group with considerable power to resist will clearly lose out in a change.	Sometimes it is a relatively easy way to avoid major resistance.	Can be too expensive if it alerts others to negotiate for compliance.
5. Manipulation + co-optation	Other tactics will not work or are too expensive	It can be a relatively quick and inexpensive solution to resistance problems.	Can lead to future problems if people feel manipulated.
6. Explicit + implicit coercion.	Speed is essential, and the change initiators possess considerable power.	It is speedy and can overcome any kind of resistance.	Can be risky if it leaves people angry with the initiators.

Source: John P. Kotter and Leonard A. Schlesinger, Choosing Strategies for Change

## B. ALTERNATIVE METHODS OF INSTITUTIONALIZATION

As identified earlier, there are two basic types of institutionalization. The first utilizes support mechanisms and the second uses reinforcing mechanisms.

### 1. Support Mechanisms

Looking first at the support mechanisms, the BOSS Program provided resource funding as a reimbursable expenditure to the field activities. This method was used to ensure the survivability of the funding for its intended use. This method has proven to be very successful in targeting BOSS billets but is a time intensive method of budgeting. In FY 87, BOSS resources changed from reimbursable to direct funding. By doing so, there is less visibility of the use of those funds. While it is clear that at each activity the Commanding Officer should have some autonomy over the distribution of funds within his command, the question is how much autonomy. Part of the problem for Commanding Officer's has been the lack of an effective way of measuring efficiency versus cost for each of his functional areas on an equitable basis.

An alternative support mechanism is to fold the BOSS Program funding into the productive unit resourcing system (PURS). This system is currently being implemented within the field activities. PURS is intended to provide the Commanding Officer the ability to more readily detect inefficiencies within his organization or supply direct

funds where they are not only most needed, but more importantly "best spent."

Under PURS, NAVSUP commits to funding the workload at the required level of performance, i.e., all field activities are funded on the basis of actual work performed vice the fixed/cost funding methodology used previously. As a result, the activity assumes the responsibility to reduce the unit cost of processing work. By paying field activities for work done on a productive unit basis, NAVSUP expects to achieve substantial gains in workforce productivity and economies through the use of a more flexible workforce, performance based incentive systems, and specifically defined performance goals and management of overhead costs. [Ref. 34:p. 1] The PUR system features the following concepts in its operation:

- a) Fixed or non-productive overhead type costs are funded as an allocation.
- b) To facilitate management of the system, the number of cost centers is kept to a minimum and defined by the activity's major mission operations.
- c) All costs that can be reasonably and discretely identified and are influenced by an activity's workload fluctuations are funded under the rate for a particular cost center.
- d) Service type functions which do not have a definable productive unit are distributed back to user cost center to the maximum extent practicable using a chargeback system.
- e) All activity direct O&M,N resources are managed under the system.
- f) All productive units generated by an activity are assumed to be the result of mission operations unless they can be tied to a specific reimbursement.
- g) Generation of productive units as a result of efforts to reduce a backlog that exists at the beginning of a fiscal year must be justified to NAVSUP on a cost-benefit basis prior to initiation



of such efforts. Determination of what constitutes an acceptable backlog for each activity will be made and published prior to the start of a fiscal year.  
[Ref. 34:p. 2]

As indicated by the third concept, a rate is determined for different cost centers. The rate is determined through negotiations between the activity and NAVSUP headquarters and is published normally between 3-4 months prior to the start of the fiscal year. Currently, activities are required to submit execution plans to NAVSUP within 30 calendar days after receipt of the official Financial Operating Plan (FOP). The plans are submitted as monthly phasings under the categories of General and Administrative Cost Center, Distributed Cost Center, and Productive Cost Center(s). Activity performance is measured against monthly phasing plans on a monthly basis for all cost centers as follows: [Ref.34:p. 5]

(1) For productive cost centers, funding adjustments for workload gain and/or lapse and cost center performance against planned rates will be calculated every month. Adjustments to cost center planned resources will be made quarterly. A NAVSUP matrix in NAVSUPINST 7000.21A, details the profit/loss calculations that will be employed to determine whether or not NAVSUP will pay out or recapture resources.

(2) For distributed and G&A cost centers, actual obligations will be compared to plan each month. Variances exceeding ten percent will be reviewed with the activity by the functional or cost center. [Ref. 34:p. 5]

There are 15 principal cost centers. The Procurement Cost Center is most affected by BOSS Program resources. Within the Procurement Cost Center, the productive unit is a weighted contract/purchase action which

is reported on DF 106 and DFPUR57 Reports. The functions managed under the Procurement Cost Center are Large and Small Purchase Buying, Contract and Purchase Administration, and Procurement Overhead. [Ref. 34:p. 27]

The principal benefit of Productive Unit Resourcing is a much improved visibility over costs. Managers have an increased awareness of the costs of doing business and take cost/earnings into consideration when managing their operations. As a result, functional managers and department directors have a much greater involvement in matters concerning budget execution. This cost/benefit awareness is not far removed from the BOSS Program's ROI awareness in that both measures are concerned with cost savings to the Navy.

When questioned about funding the BOSS Program effort in the future, all of the NFCS Procurement Managers interviewed stipulated that the resources provided through the program were essential to their procurement effort. When asked if those funds could be folded into the PUR system, the majority felt it could be efficiently accomplished provided the rates were adjusted upward accordingly.

Consider the BOSS funding for breakout provided to field activities. Clearly, breakout as a functional category utilizes a major portion of the BOSS Program dollars but also has provided NAVSUP with the highest total

savings. If funding for the breakout effort were to be incorporated within the PUR System, the money could be given as an increase in the PUR rate authorized by NAVSUP. While this process might seem appropriate, it does have some drawbacks. A major drawback is NAVSUP's ability to adjust the rate annually. During tight budget years, lack of visibility of effort towards breakout would allow non-expanding or even negative PUR rate growth that is not indicative of the resources and effort being committed towards breakout.

Since breakout usually deals with larger contracts, it most often would fall within the Large Purchase Production Unit Matrix identified in NAVSUPINST 7000.21A, Table 7.

By creating a breakout category within the Contract Type column with manhours and productive unit weights identified, the field activity performing the effort would receive the appropriate credit for the level of effort expended. This is an important issue if the breakout process is truly to be institutionalized.

Similar problems with simply adjusting the PUR rate for each activity will be experienced with the funding for competition. The dollars identified will eventually lose their identity and fall victim to arbitrary budget cuts. However, as identified earlier, many activities have utilized BOSS billets for competition in a generic sense.

TABLE 7

## LARGE PURCHASE PRODUCTION UNIT MATRIX

CONTRACT TYPE	STANDARD MANHOURS	PRODUCTIVE UNIT WEIGHTS
Del Order/GSA/Other Fed Agencies	13	1
Sealed Bids	39	3
Unpriced BOA Orders	13	1
Initial Placement of BOAs/ Contracts & IDTCs <\$25K	26	2
Definitized BOA Orders		
25K to less than 100K	39	3
100K to less than 500K	143	11
500K to less than 1M	143	11
1M to less than 10M	182	14
10M and Greater	182	14
Negotiated Competitive Supply		
25K to less than 100K	39	3
100K to less than 500K	52	4
500K to less than 1M	117	9
1M to less than 10M	182	14
10M and Greater	182	14
Negotiated Competitive Service		
25K to less than 100K	52	4
100K to less than 500K	156	12
500K to less than 1M	156	12
1M to less than 10M	195	15
10M and Greater	195	15
Negotiated Sole Source/8A		
25K to less than 100K	52	4
100K to less than 500K	156	12
500K to less than 1M	156	12
1M to less than 10M	195	15
10M and Greater	195	15

Source: NAVSUP Instruction 7000.21A

In fact, over 50% of the people funded by BOSS perform standard buying and contract administration functions. Thus, rather than single out the specific individuals to undertake the BOSS initiatives, everyone conducts more research to ensure the highest degree of competition possible.

This being the case, query why NAVSUPINST 7000.21A reflects greater manhours and larger productive unit weights for Negotiated Sole Source than for Negotiated Competitive Supply (Table 7)? The Navy's effort has been to increase competition and if properly carried out, would require greater effort to facilitate competition than sole source. The current productive unit weights reward sole source procurements and any activity tight on funding will tend to award a sole source procurement rather than expend the effort to make it competitive. If BOSS competition dollars are to be effectively utilized, PUR standard manhours need to be adjusted to accurately reflect the manhours to conduct competitive awards under the BOSS Program objectives which will reflect higher productive unit weights for Negotiated Competitive Supply than for Negotiated Sole Source.

## 2. Reinforcing Mechanisms

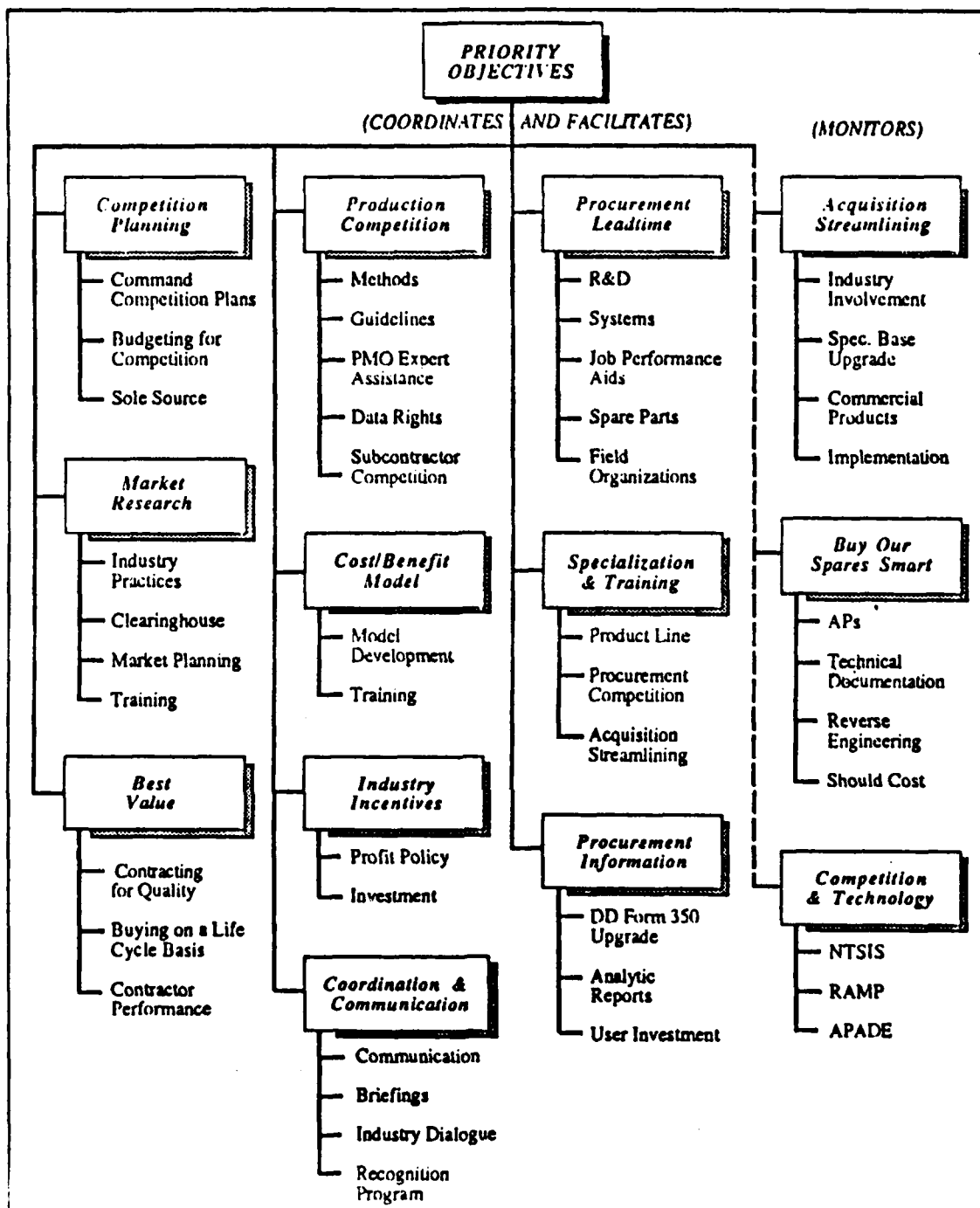
Reinforcing mechanisms are the regulations, directives, instructions, and programs the Navy utilizes to disseminate its initiatives. Of the 126 initiatives identified within the BOSS Program, virtually all deal with competition in one form or another. In the absence of the BOSS Program, it is important for a vehicle to exist that can objectively target competition initiatives and monitor effective implementation of those initiatives within the Navy. Equally important is the reinforcement of recent changes in the way the Navy conducts its procurement

business. Today, such an organization exists and has been mandated by law: the Competition Advocate Program. [Ref. 21]

Placing the outstanding BOSS initiatives under the umbrella of the Competition Advocate Program would enhance the institutionalization process. During FY 86, the Competition Advocate Program made significant progress in overcoming institutional bias favoring sole source procurement. To help continue this progress, initiatives called a Priorities Objectives Program have been developed to enhance competition: [Ref. 21:p. IV-2]

- Improve Early Planning for Competition
- Upgrade Market Research Activity
- Strengthen Best Value Concepts
- Implement Consistent Production Competition
- Apply Effective Cost and Benefit Models
- Apply Incentives for Industry Competitiveness
- Increase Coordination and Communication
- Reduce Procurement Leadtime
- Increase Functional Specialization and Training
- Provide Supplemental Procurement Information. [Ref. 2:p. IV-2]

Figure 4 lists the 34 initiatives included in the Priority Objectives, as well as the 11 additional competition-related objectives that the Office of the Navy Competition Advocate General will monitor. [Ref. 21:p. IV-3] Considering the maturity of the BOSS Program, coupled



Source: Navy Procurement Competition FY 1986 Report to Congress

Figure 4. Navy Competition Advocate General Priority Objectives

with the majority of the effort remaining within the Breakout and Automated Systems categories, it appears feasible to incorporate the BOSS Program within the Priority Objectives identified in Figure 4. In this situation, the BOSS Program would become a coordinated and facilitated objective vice one that the Navy Competition Advocate General only monitors.

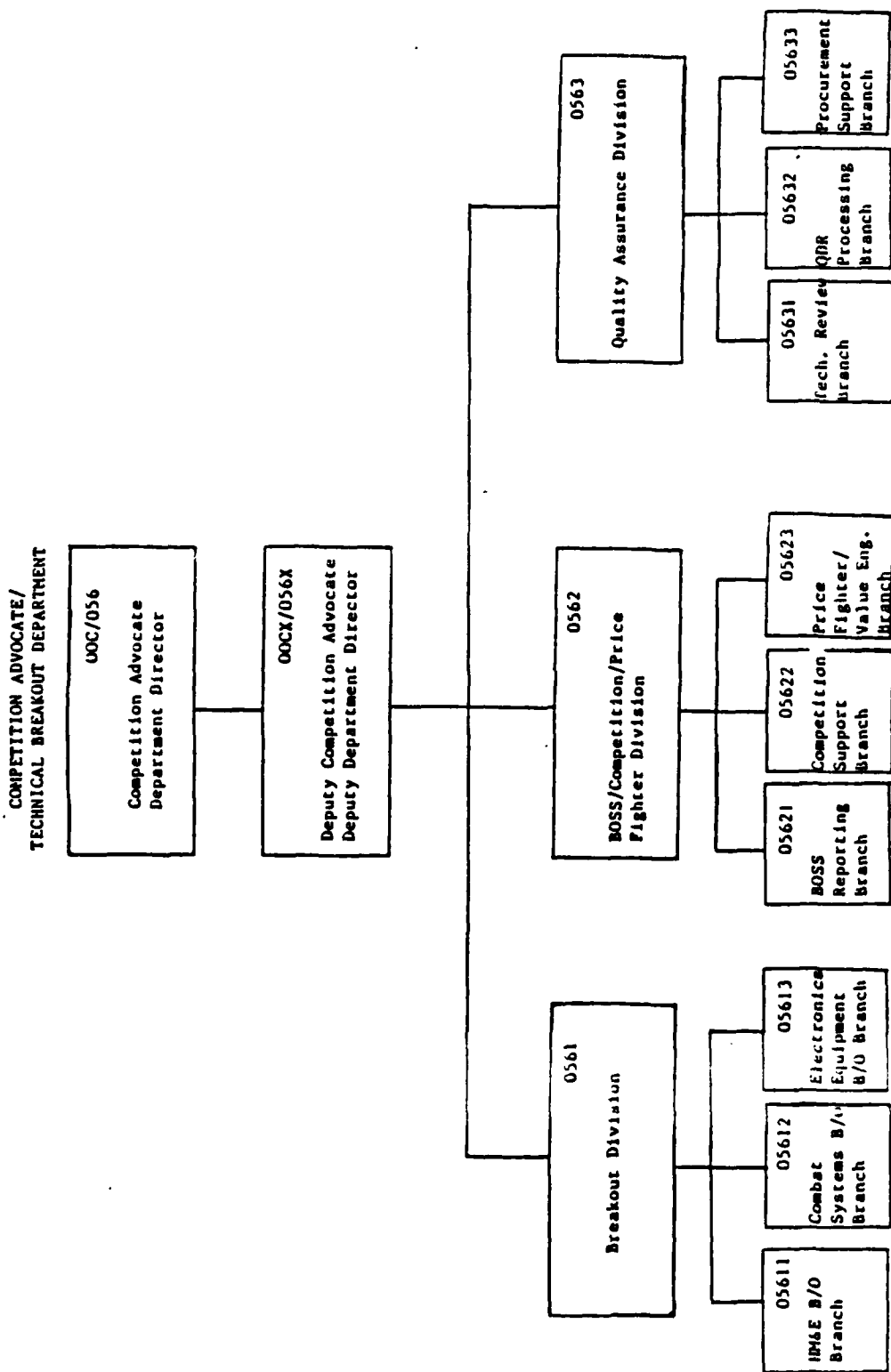
This is further reinforced when one looks at the organizational structure most field activities utilized to implement the BOSS Program. In the case of the ICP's, the existing structure reflects the BOSS Program as a functional activity reporting to the Competition Advocate, figures 5 and 6. At many of the smaller field activities, the Competition Advocate wears a second hat as the BOSS Program manager.

#### C. SUMMARY

The majority of the BOSS Program initiatives appear to have been successfully implemented. This has occurred primarily through supporting mechanisms and reinforcing mechanisms. Of the 126 initiatives identified, 19 remain in an outstanding status with the majority concentrated within the Breakout and Automated Systems category. Both of the Breakout and Automated Systems categories are well integrated into the fabric of the Navy's procurement process and will continue provided the support and reinforcement mechanisms continue. An alternative method of

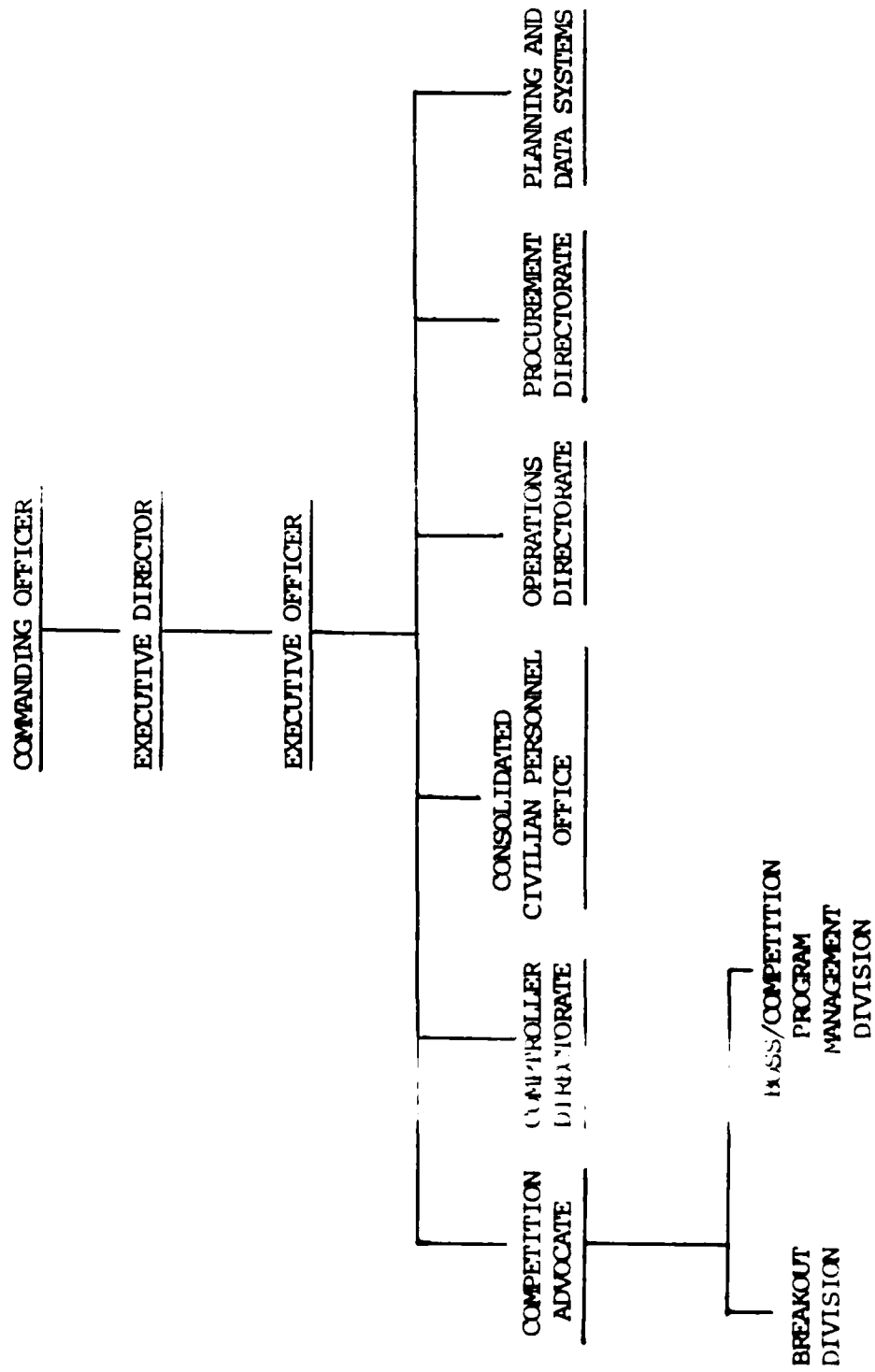


institutionalizing the BOSS Program initiatives is to utilize the Productive Unit Resourcing System developed by NAVSUP to provide the support mechanism. A second method of institutionalizing the BOSS Program initiatives is to incorporate the coordination and facilitation of the BOSS Program initiatives within the Navy Competition Advocate General Priority Objectives as the reinforcement mechanism.



Source: SPCC

Figure 5. SPCC Proposed Organization



Source: ASO

Figure 6. ASO Organization

## V. DISCUSSION

### A. IMPLICATIONS AND CONSEQUENCES OF ALTERNATIVE METHODS OF INSTITUTIONALIZATION

#### 1. Support Mechanism

The previous chapter identified Productive Unit Resourcing as a support mechanism and an alternate method of institutionalizing BOSS Program initiatives. However, the PUR System is not without its own problems. Much like the BOSS Program, the PUR System faces resistance to change. However, unlike most new programs, the PUR System is structured to financially reward efficiency in operations. The result is the PUR System is a new method of measuring buying efficiency. Many of the procurement managers interviewed were comfortable with the PUR System concept but felt that there were several issues that needed to be resolved before they would fully embrace the program.

To properly convey the concerns of the procurement managers, a further explanation of the PUR System is required. Concentrated within the Procurement Cost Center are three principal cost pools. [Ref. 34:p. 4]

- 1) General and Administrative. Principally includes Contract Management Reviews (CMR's) and scheduled training.
- 2) Small Purchase. Principally includes proportional overhead costs, purchase administration, and small purchasing buying.

- 3) Large Purchase. Principally includes large purchase overhead costs, contract administration, and large purchase buying. [Ref. 34:p. 4]

When NAVSUP issues its Business Plan call letter to the field activities, an explanation of the procedures to be used in developing productive unit rates and workload projections for the upcoming fiscal year is identified. Once the workload projections for the year and the projected costs are identified, the following simplified formulas are used to determine productive unit rates: [Ref.34:pp. 27-28]

$$\frac{\text{Small Purchase Costs}}{\text{Small Purchase Units}} = \text{Small Purchase Rate}$$

$$\frac{\text{Large Purchase Costs}}{\text{Large Purchase Units}} = \text{Large Purchase Rate}$$

The field activity must negotiate both the projected costs and units with NAVSUP prior to the onset of the new fiscal year. Once approved by NAVSUP, the field activity receives quarterly funding at the approved rate. [Ref. 34:p. 5]

According to NAVSUPINST 7000.21A, the following matrix (Figure 7) determines whether resources are provided to or recaptured from NAVSUP field activities based on the results of productive operations during a given quarter:

For example, an activity has been granted funding of one million dollars during the fiscal year at increments of \$250,000 per quarter. The objective is to have the actual work units and actual costs match the planned work units and

Actual Productive Units Generated		
	Higher	Lower
<u>Higher</u>	-Additional Units Paid for at Plan/Neg. Rate	-Funds for Lapsed Units Recaptured at Plan/Neg. Rate
ACTUAL PROD. UNIT RATE	-No Profit Sharing	-No Profit Sharing
	-Additional Units Paid at Actual Rate	-Funds for Lapsed Units Recaptured at Plan/Neg. Rate
<u>Lower</u>	-Profit Sharing Based On Approved Ratio for Planned Units	-Profit Sharing Based on Approved Ratio for Actual Units [Ref. 34:p. 6]

Source: NAVSUP Instruction 7000.21A

Figure 7. NAVSUP Matrix

planned costs. In reality however, this will rarely be the case. Most likely, there will be a variance in either the work units, costs or both. If the planned work units and the actual work units at the end of the quarter match, but the costs are less than planned, the activity retains the difference in funding. For example: if the costs were \$225,000 for the quarter and there was no variance in the work units, the activity would retain \$25,000 as a reward for efficiency. However, this can be a double edged sword as next year's funding may be adjusted downward accordingly. If on the other hand, the activity produced more work units than planned, the activity receives a funding supplement based on the additional work units times the lower of the planned or actual productive unit rate. The supplement

which is audited by NAVSUP the month following the quarter in question, is paid as an augment within the middle of the following quarter. [Ref. 35]

Two issues identified during interviews arise from this method of profit sharing. First is the requirement for quarterly adjustment of planned versus actual figures. If actual work units are greater than planned or actual costs are less than planned, (i.e., the activity exceeded its goals), the ramifications are not as critical compared to cases where actuals fell short of goals. Unlike general trade personnel, such as lower level inventory warehousemen, or traffic warehousemen, or non-specialized clerical personnel, the procurement cost center utilizes highly trained contracting personnel. If in one particular quarter the results show less productivity than planned, it is unrealistic to take certain actions to address the shortfall, e.g., lay off trained procurement personnel. One manager stated "the training required to perform contracting actions is too extensive and can not be accomplished by temporary personnel". Downward funding adjustments, therefore should occur no more than semi-annually to minimize disruption to an activity's procurement workforce.

The second issue identified deals with the profit sharing reward for efficiency. As mentioned earlier, an activity which manages to decrease the costs of performance, can be penalized the following year for developed

efficiencies in the current year. In the annual negotiation process, there needs to be consideration of the factors contributing to the efficiencies before a downward adjustment of the activity's productive unit rate occurs. In some cases, the increased efficiencies during the year may be due to temporary changes and the savings may be short lived.

Another issue of concern to procurement managers at the NSC's and NRCC's is quality of the contracting product. As the pressure to reduce productive units rates is applied, do controls exist to ensure that BOSS Program objectives are followed such as Breakout and Competition? Evidence of the pressure to reduce the productive unit rates is visible in the funding process for fiscal years 1985 and 1986. The rates for FY 86 were determined by the actual costs for each activity during FY 85. NAVSUP chose to use FY 85 as the base year for PUR rate determination. In an effort to increase efficiency, a 6.5% decrease in FY 85 base year funding was provided for FY 86. [Ref. 35] While the majority of the field level activities experienced few problems in incorporating the PUR System and the funding cuts, results do not show the compromised quality that may have occurred to achieve those results. While Contract Management Reviews (CMR's) help identify the quality of an activity's procurement operation, the review is seldom timely and often not sufficiently comprehensive.



Considering the proposed decrease in funding of 8% for FY 88, the concern of many procurement managers and buying personnel interviewed, is the ability to maintain a quality product with continued budget cuts. [Ref. 35]

The funding associated with the BOSS program is perceived by most procurement managers as the resources required to provide quality contracting. Of the personnel hired to fill BOSS billets funded at field activities, less than 50% performed work exclusively related to BOSS initiatives. In most cases, over 50% were additional buyers in small and large purchasing. However, those additional people enabled the procurement workforce to negotiate more competitive/quality contracts without significantly increasing PALT. If the BOSS Program funding is to be included under the PUR System, it is essential that an activity's productive unit rates and weights be proportionately increased by the amount of BOSS Program funding received and effort put forth in the past.

## 2. Reinforcing Mechanism

The second alternative method of institutionalizing the BOSS Program initiatives is to fold the remaining initiatives into the Competition Advocate Program. Since the majority of the BOSS Program deals with competition in one form or another, accomplishment of the remaining initiatives would not only seem appropriate but also reduce overlap in the reporting and monitoring functions. The role

of the Competition Advocate is to perform review and oversight functions concerning the execution of statutes, regulations, and policies affecting competition on a systemic basis. As described by the Navy's Competition Advocate General, Rear Admiral Stuart Platt, SC, USN:

We have now begun to rapidly capitalize on our business philosophy through the management infrastructure the Navy has established. To keep pace with these improvements, the Navy acquisition team will look to new methods to replace and streamline the paper-intensive procurement process. The advancement of Navy procurement automation, if left unattended, will be a major barrier to successful competition in the future. We will work to set in place expert systems to reduce lead times in the procurement process. Also, steps that capitalize upon defense industry productivity and Navy competition will further improve the acquisition process. We in the armed services, through interactions with a segment of the U.S. industrial base, increasingly find ourselves in a position to aid our nation's worldwide competitiveness. [Ref. 21:p. vi]

By statute and regulation, the Navy Competition Advocate General is responsible for "challenging barriers to promoting full and open competition" in procurement. [Ref. 21:p. III-6] As a minimum, this requirement satisfies one of the BOSS Program's interdependent goals, that of significantly increasing the use of competitive procurement.

As previously identified, the majority (79%) of the outstanding BOSS Program initiatives deal with the categories of Breakout and Automated Systems. A review of Figure 4 reflects the categories and objectives that are monitored by the Navy Competition Advocate General. Within the BOSS Program category, the objectives monitored are: Acquisition Plans, Technical Documentation, Reverse

Engineering, and Should Cost. The latter three objectives deal specifically with Breakout. Under the Competition and Technology category, the objectives monitored are, the Navy Standard Technical Information System (NSTIS), the Rapid Acquisition of Manufactured Parts (RAMP) Program, and the APADE Program. [Ref. 21:p. IV-3] Whether by accident or design, the monitored categories of BOSS and Competition & Technology identify objectives dealing with the majority of the outstanding BOSS Program initiatives.

If the remaining BOSS initiatives are to be folded under the Competition Advocate, some issues must be considered. The first issue would be one of integration. The majority of the BOSS initiatives have dealt exclusively with spare parts. The Competition Advocate Program has focused on a broader scope of objectives ranging from competitive small procurements to major system acquisitions. As a part of the Competition Advocate General priority objectives, the possibility exists that the BOSS initiatives will be overshadowed or downgraded in importance. It is difficult to determine if loss of a separate identity under PML-550 will result in a diminished effectiveness of the program. While the vast majority of the BOSS Program initiatives have been institutionalized through regulations, policy, instructions, and programs, there still remains a requirement to monitor and update the various directives and periodically audit for compliance. Considering the core of

BOSS is to identify and institutionalize the program initiatives, the majority of the BOSS effort has been completed with only 19 of the original 126 initiatives in an outstanding status. Most of those interviewed felt that upon completion of the APADE Program implementation, the majority of the Automated Systems initiatives will be accomplished. The remaining initiatives deal principally with Breakout.

Breakout crosses several boundaries in competition and the savings generated need to be effectively weighed against the costs of Breakout. Within the Navy Competition Advocate General Priority Objectives, Breakout affects several categories such as, Procurement Leadtime, Competition Planning, Acquisition Streamlining, and Production Competition. The ability to interact with the other objective categories is important in order to minimize suboptimization. For example, in the Production Competition category, efforts to identify data rights should not be undertaken without input from experienced personnel conducting Breakout actions. Interviews identified difficulties with the Breakout process which, while important in determining data the Navy needs, is often ignored during data decisions for major systems acquisitions. Thus, some efficiencies through coordination and lack of duplicated efforts can be achieved in folding

the remaining BOSS initiatives into the Navy Competition Advocate General Priority Objectives.

#### B. SUMMARY

The PUR System can be an effective method of institutionalizing the support mechanism of the BOSS Program provided the funding integrity remains in the transfer process. Once implemented, concerns include the effect annual funding cuts will have on quality, the disruption of the procurement workforce through quarterly recapture of funds, and the double-edged sword reward for efficiency. By statute and regulation, the Office of the Navy Competition Advocate General has been created to challenge barriers to full and open competition in procurement. With the BOSS Program initiatives nearing completion, and with the overlap in reporting and monitoring functions, it would be appropriate to consider folding the maturing BOSS Program into the Competition Advocate General Priority Objectives.

## VI. CONCLUSIONS AND RECOMMENDATIONS

The following conclusions, recommendations, and answers to the research questions are presented as a result of this study.

### A. CONCLUSIONS

The program management office (PML 550) has been an effective vehicle for incorporating the BOSS initiatives.

PML 550 has provided centralized management and coordination for over 126 initiatives designed to address and solve problems in spare parts pricing. By using a program management office, the BOSS initiatives have received the visibility and resources needed to incorporate reforms in logistics support provided to the operating forces.

The use of reimburseable funding as the method of providing BOSS resources to the NFCS has been effective.

As part of the scope of BOSS, PML 550 is responsible for budgeting, allocating, and monitoring the utilization of all resources (funds and manpower) assigned to NAVSUP for BOSS efforts. The use of reimbursable funding was an important step in forcing the field activities to utilize BOSS funding for BOSS efforts.

The BOSS Program is a mature program.

Of the 126 BOSS initiatives, only 19 remain in an outstanding status and 3 in a continuing status. The remainder have been completed, requiring only a monitoring function.

Since the program management office (PML 550) will have a finite life, alternative methods of integrating the BOSS initiatives are required.

As identified in PML 550's charter, the program management office will eventually be disestablished. With less than 20 remaining initiatives in an outstanding status, a transition plan will soon be required to insure a smooth disposition of the BOSS resources, responsibilities and functions. The plan should provide the means of locking the new BOSS behaviors into place by means of supporting or reinforcing mechanisms, so that it becomes the new norm.

As a support mechanism, the Productive Unit Resourcing (PUR) System provides an alternative method of integrating the BOSS resources (funds and manpower).

Under PURS, NAVSUP commits to funding the workload at the required level of performance, i.e., all field activities are funded on the basis of actual work performed vice the fixed/cost funding methodology used in the past. The principal benefit of PURS is the improved visibility over costs. Managers will have an increased awareness of the costs of Breakout and Competition and can take

cost/earnings into consideration when managing their operations. Also, functional managers and department directors will have a much greater involvement in matters concerning budget execution. This cost/benefit awareness is not far removed from the BOSS Program ROI sensitivity in that both measures are concerned with cost savings to the Navy.

The Productive Unit Resourcing System (PURS) will require revision to effectively incorporate BOSS Program funding.

The current instruction, NAVSUPINST 7000.21A, does not recognize effort for Breakout and increased Competition, two of the principal components of the BOSS Program and Initiatives.

As a reinforcing mechanism, the Competition Advocate Program provides an alternative method of integrating the completion, monitoring and reporting of the BOSS Program Initiatives.

The Competition Advocate Program, which is mandated by law, provides a permanently established organization which can incorporate future spare parts pricing initiatives as well as completion, monitoring and reporting functions of the BOSS Program Initiatives.

Authorization at the Inventory Control Points (ICP's) to make Breakout decisions, which is provided by the Hardware System Commands (HSC's), differs dramatically.



ASO has been provided Breakout authority on approximately 90% of their line items with only 10% requiring NAVAIR approval. SPCC, on the other hand, has virtually no Breakout approval authority and must submit all candidates to NAVSEA for approval. The result is a long and drawn out administrative process on the part of SPCC with a smaller Breakout success rate.

#### B. RECOMMENDATIONS

The following recommendations are relevant for this research effort.

As a support mechanism, BOSS Program funding should be incorporated into the Productive Unit Resource (PUR) System. The PUR System provides a means for funding on the basis of actual work performed vice the fixed/cost funding methodology used in the past. The PUR System provides an increased awareness of the costs of doing business and takes cost/earnings into consideration when managing operations. PURS can provide longevity to the BOSS Program initiatives by providing continuing resources for BOSS efforts. Additionally, the cost/earnings awareness generated by PURS is not far removed from the ROI measures currently being used to justify BOSS resources.

Modify the NAVSUP Productive Unit Resourcing Instruction to adequately reflect the efforts of Breakout and increased Competition. Within Enclosure (3) of NAVSUPINST 7000.21A, the Large Purchase Production Unit Matrix should identify a

Breakout category under the Contract Type column with appropriate manhours and productive unit weights assigned. In this way, the activity performing Breakout would receive appropriate credit for the level of effort expended. In the area of Competition, the Large Purchase Production Unit Matrix should identify greater manhours and larger productive unit weights for Competition (under the BOSS Initiatives) than for Negotiated Sole Source. The Navy's effort has been to increase competition and if properly carried out, would require greater effort to facilitate competition than to accomplish sole source procurement.

Modify the Productive Unit Resourcing Instruction to require downward funding adjustments no more than on a semiannual basis for the Procurement Cost Center. Unlike semi-skilled to unskilled functional areas, the Procurement Cost Center utilizes highly trained contracting personnel. The use of temporary personnel is unrealistic in that training alone would take several months and the productivity demanded by the system may not be realized until well into the future. To minimize disruption to the Procurement Cost Center, the downward funding adjustment should occur no more than semiannually.

As a reinforcement mechanism, the Competition Advocate Program should incorporate the maturing BOSS Program and its remaining initiatives. The finite life of PML 550 dictates the need to identify an organization that can objectively

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INSTITUTIONALIZING THE BUY OUR SPARE PARTS (BOSS)  
INITIATIVES WITHIN THE NAVY FIELD CONTRACTING SYSTEM  
(NFCS)(U) NAVAL POSTGRADUATE SCHOOL MONTEREY CA

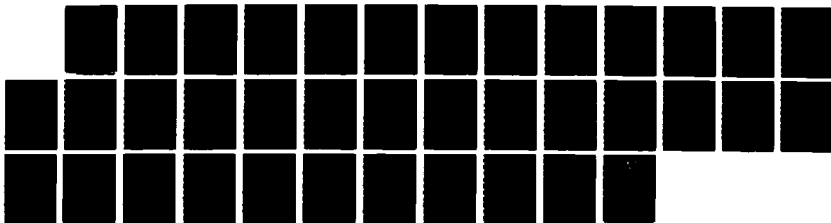
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focus on spare parts competition initiatives and effectively monitor implementation of these initiatives within the Navy. Since the Competition Advocate Program is mandated by law, incorporating the remaining objectives and program oversight within the Competition Advocate Organization would ensure institutionalization. The BOSS Program, which essentially involves competition from a spare parts perspective, is currently under the organization of the Competition Advocate at many of the NAVSUP field level activities. The impact of this recommendation, therefore, should be minimal in most cases and would more accurately reflect the current organization. Additionally, since several of the outstanding BOSS initiatives are already monitored as a Priority Objective within the Competition Advocate Program, the administrative vehicle to incorporate such a change currently exists.

SPCC should be provided with a small group of Breakout engineers similar to that at ASO and NAVSEA should provide SPCC with authority to make Breakout and Competition decisions. The result would be a reduction in the number of Breakout approval packages that must be submitted to NAVSEA and subsequent reduction in administrative costs and timetables for completion. Approval of SPCC Breakout proposals by NAVSEA is slow and costly. A group of experienced engineers within the Breakout Division at SPCC could provide credibility for Breakout decisions. Once

accomplished, NAVSEA should establish criteria for Breakout approval authority at SPCC.

The PRICE FIGHTER organization should remain a separate entity. While interviewees at ASO felt a small contingent of "should cost" engineers located at their office would be advantageous, both ICP's felt the current PRICE FIGHTER organization provides a valuable service towards the Breakout effort and should remain a separate activity which continues to provide "should cost" analyses to any organization when requested.

#### C. ANSWERS TO THE RESEARCH QUESTIONS

The primary research question was: What actions are required to effectively incorporate the Buy Our Spares Smart (BOSS) Program Initiatives into the Acquisition and Logistics process?

The answer revolves around the methods of locking new behavior patterns into place by means of supporting and reinforcing mechanisms, so that it becomes the new norm.

The supporting mechanism is the PUR System with modifications to the existing NAVSUP Instruction 7000.21A. The modifications include restructuring the Large Purchase Production Unit Matrix to reflect a Breakout category under the Contract Type column and an increase in the standard manhours and corresponding productive unit weights.

The reinforcing mechanism is the Competition Advocate Program. Since the majority of the BOSS Program deals with

competition in one form or another, and the Competition Advocate Program's mandate is to foster full and open competition, accomplishment of the remaining initiatives under the aegis of the Competition Advocate Program seems not only appropriate, but will reduce overlap in the reporting and monitoring functions.

The subsidiary questions were:

1. What are the BOSS Program's principal areas of concern and what are its components, goals and objectives?

The BOSS Program consists of 126 initiatives broken down into ten functional categories. The objective is to integrate those initiatives into the procurement process through attainment of three interdependent goals: breakout of parts and equipment from prime contractors, significantly increase the use of competitive procurement, and ensure that we pay only fair and reasonable prices.

2. How are BOSS goals and objectives incorporated into the Navy's Acquisition and Logistics process?

Most of the BOSS initiatives have been incorporated into the procurement process through regulations, directives, instructions, or other programs. Many of the initiatives are now part of the FAR or the DFARS which guides the day to day activity of procurement personnel.

3. How have the BOSS initiatives been implemented at field activities?

As identified above, most of the initiatives are incorporated into specific regulations, directives, or instructions such as the FAR or DFARS. Some local

instructions exist which address competition or breakout. In many cases, the initiatives have been indirectly implemented by incorporating BOSS related functions in the position descriptions of local personnel.

4. How can the Competition Advocate at the field level facilitate the institutionalization process?

The role of the Competition Advocate is to perform review and oversight functions concerning the execution of statutes, regulations, and policies affecting competition on a systematic basis. The role is obviously a very broad and encompassing one that overlaps the BOSS Program's interdependent goals. Considering that the BOSS Program deals with competition in one form or another, an aggressive field level Competition Advocate will indirectly facilitate the institutionalization process by the very nature of his or her job.

5. How might the Automation of Procurement and Accounting Data Entry (APADE) facilitate implementation of BOSS Program Initiatives?

An integrated, self-contained program, APADE provides a standardized procurement system that automates the total acquisition process from requisition input to the completion of an awarded contract. APADE offers avenues for institutionalizing initiatives into the very fabric of the program itself. Required steps in awarding contracts that cannot be circumvented prior to award are an effective method of integrating the BOSS initiatives into the Acquisition and Logistics process.



#### D. AREAS FOR FURTHER RESEARCH

Two items that could warrant further research. They involve productive unit weight determination for Breakout and competition under BOSS, and identification of specific procedures for integration of BOSS within the Competition Advocate Program.

## APPENDIX A

### THE 35 POINTS

#### SECRETARY OF DEFENSE INITIATIVES

##### TEN POINTS (FROM MEMO OF 25 JUL 83)

1. SECDEF Initiative: Offer incentives to increase competitive bidding and reward employees who vigorously pursue cost savings.
2. SECDEF Initiative: Take stern disciplinary action against those employees who are negligent in implementing our procedures.
3. SECDEF Initiative: Alert defense contractors to the seriousness of the problem and our firm intention to keep prices under control.
4. SECDEF Initiative: Ensure that competition advocates challenge orders that are not made competitively or appear to be excessively priced.
5. SECDEF Initiative: Refuse to pay unjustified price increases.
6. SECDEF Initiative: Accelerate reform of basic contract procedures.
7. SECDEF Initiative: Take steps to obtain refunds in instances where we have been overcharged.
8. SECDEF Initiative: Cease doing business with those contractors who are guilty of unjustified and excessive pricing and who refuse to refund any improper overcharges.
9. SECDEF Initiative: Continue audits and investigations.
10. SECDEF Initiative: Eliminate excessive pricing, recover unjustified payments and take corrective action against those contractors and employees who are either negligent in performing their duties or are engaging in excessive pricing practices.

ADDITIONAL INITIATIVES (FROM MEMO OF 29 AUG 83)

11. SECDEF Initiative: Provide resources to induce desirable breakout, effective competitive procurement and improved pricing in the acquisition of spare parts.
12. SECDEF Initiative: Apply the DOD Parts Program to enhance competition.
13. SECDEF Initiative: Accelerate plans for acquisition of computer hardware and software to assist parts control personnel.
14. SECDEF Initiative: Institute action to identify disparities in spare parts prices within and among various procuring activities.
15. SECDEF Initiative: Employ value engineering to investigate parts where cost or price exceeds intrinsic value.
16. SECDEF Initiative: Assign more engineering resources to review new procurement data packages for accuracy.
17. SECDEF Initiative: Develop and test a procedure to make breakout of parts a factor in source selection for new major systems. Develop new incentive arrangements to reward contractors for cost savings generated by their efforts.
18. SECDEF Initiative: Negotiate contract data provisions which, as appropriate, reduce contractors' proprietary rights in data.
19. SECDEF Initiative: Designate acquisition of spare parts and procurement data as an agenda item in Acquisition Strategy Panels, Advance Acquisition plans, and Acquisition Review Councils and Logistic Review Group sessions.
20. SECDEF Initiative: Revise performance evaluation factors for acquisition and logistics managers. Include emphasis on spare parts pricing, breakout, competition and value engineering accomplishments.
21. SECDEF Initiative: Implement DAR Supplement No. 6.
22. SECDEF Initiative: Consider in all contracts, as appropriate the government's right and ability to breakout and procure competitively spare parts.
23. SECDEF Initiative: Discourage use of government specifications and contractor proposed engineering designs

that inhibit subsequent competitive procurement of spare parts.

24. SECDEF Initiative: Continue action on SECDEF Ten Point Program to ensure that prices paid for all spare parts are fair and reasonable.

25. SECDEF Initiative: Pursue appropriate refunds or other recoupments vigorously following any audit or other disclosure of incorrect pricing or overcharge.

26. SECDEF Initiative: Review existing contracts to fully address any and all opportunities for improved pricing of spare parts, including breakout and competition.

27. SECDEF Initiative: Instruct acquisition personnel to challenge any procurement action for spare parts where the estimated or negotiated price appears unrelated to intrinsic value.

28. SECDEF Initiative: Reexamine existing policy on patent and data rights arising under government funded IR&D.

29. SECDEF Initiative: Expand training curricula to ensure emphasis, understanding and technical skill level for all personnel engaged in the acquisition of spare parts.

30. SECDEF Initiative: Assign special task forces to review existing reprocurement data packages for spare parts with high annual buy values.

31. SECDEF Initiative: Evaluate and make recommendations for changes to existing authorization, appropriation, apportionment, budgeting and financial management practices and regulations pertaining to acquisition of spares.

32. SECDEF Initiative: Pursue with appropriate congressional committees and their staffs the merit of a two-year authorization of replenishment spare parts and consumables.

33. SECDEF Initiative: Insist on contract terms and conditions in all future acquisitions that afford more equitable treatment and provide for greater assurance of fair and reasonable prices.

34. SECDEF Initiative: Automate data repositories to improve the acquisition, storage, update and retrieval of reprocurement technical data.

35. SECDEF Initiative: Evaluate and assess accomplishments under near- and mid-term actions for additional policy direction, as appropriate.

## APPENDIX B

### THE 126 INITIATIVES

#### SUMMARY OF BOSS INITIATIVES

RD - Requirements Determination	PS - Price Surveillance
B - Breakout	CM - Contract Management
C - Competition	T - Training
MP - Method of Procurement	AS - Automated Systems
P - Pricing	R - Resources

#### REQUIREMENTS DETERMINATION (RD)

INITIATIVE NO.: RD-001/Outstanding SECDEF 10 PTS: #6

ACTION: Review procurement and provisioning policies to ensure that common use items are not automatically included in contractor interim and life cycle maintenance/supply support packages

GOAL: Provide field activities with a summary of applicable existing references or, if no references exist, approval by COMNAVSUP of new policy guidance for issuance to field.

INITIATIVE NO.: RD-002/Completed SECDEF 10 PTS: #6

ACTION: Prepare point paper describing what happened at NTEC and what changes should be made in provisioning policy for training devices.

GOAL: To promulgate new guidance, if required, regarding policy for provisioning training devices.

INITIATIVE NO.: RD-003/Completed SECDEF 10 PTS: #6

ACTION: Research the EOQ issue decision rules to ascertain how they may be applied to decrease the overall cost of spare parts.

GOAL: Provide direction for the use of EOQ/annual buys in order to decrease the overall cost of spare parts.

INITIATIVE NO.: RD-004/Completed SECDEF 10 PTS: #6

ACTION: Definitize policy on when supply system stock must be used to fill requirements identified by NSN, to include new construction, commercial DOPs, interim life cycle maintenance/supply support, and Navy supply system support.

GOAL: Provide a summary of applicable existing references or, if no references exist, promulgate new policy guidance to field activities.

INITIATIVE NO.: RD-005/Completed

SECDEF 10 PTS: #10

ACTION: Work with GSA/DLA to reduce the number of AAC "L" items bought in the field.

GOAL: Reduce the number of AAC "L" items to the lowest practical level.

INITIATIVE NO.: RD-006/Completed

SECDEF 10 PTS: #10

ACTION: Require mandatory application of the DOD Parts Control Program as defined by DODI 4120.19 in all weapon system contracts.

GOAL: Issue guidance requiring the inclusion of the DOD Parts Control Program in all acquisition POA&Ms.

INITIATIVE NO.: RD-007/Outstanding

SECDEF 10 PTS: #10

ACTION: Review existing policies and procedures for making repair vs. buy decision on repairable items and issue appropriate guidance to field activities who make such decisions.

GOAL: Ensure that decisions to buy or repair spare parts are economically sound.

INITIATIVE NO.: RD-008/Completed

SECDEF 10 PTS: #10

ACTION: Pursue the concept of consistent fill rates/Average Days Delay (ADD) among services as a basis for balanced weapon system support funding.

GOAL: To evaluate whether budgeted requirements are achieving required support for spares, and to determine what additional resources are needed to achieve increased levels.

INITIATIVE NO.: RD-009/Outstanding

SECDEF 10 PTS: #6

ACTION: Determine the feasibility of competing spares buys for initially competed equipment.

GOAL: To allow ICPs to make competitive buys rather than sole source PIOs/direct procurements for spares buys.

#### BREAKOUT (B)

INITIATIVE NO.: B-001/Completed

SECDEF 10 PTS: #6

ACTION: Implement DAR Supplement 6 and establish Breakout Program at Inventory Control Points and Hardware Syst Commands.

GOAL: To ensure that the Navy implements a viable Breakout Program in order to obtain maximum competition in the acquisition of spare parts.

INITIATIVE NO.: B-002/Completed

SECDEF 10 PTS: #6

ACTION: Designate SES as full-time technical advocate for breakout.

GOAL: To provide, within NAVSUP, a high-level position to ensure the successful implementation of a visible Breakout Program.

INITIATIVE NO.: B-003/Completed

SECDEF 10 PTS: #6

ACTION: Establish a formal program to challenge proprietary data restrictions on parts for existing systems.

GOAL: To challenge invalid proprietary data claims by contractors. Where necessary, legal action will be pursued to obtain data.

INITIATIVE NO.: B-004/Outstanding

SECDEF 10 PTS: #4

ACTION: Prioritize and fund acquisition of reprourement technical data in ILS planning process.

GOAL: To ensure that all data required to allow maximum competition during the reprourement of spares is acquired during the Integrated Logistics Support process.

INITIATIVE NO.: B-005/Completed

SECDEF 10 PTS: #3

ACTION: Establish liaison with upper level corporate managers to sell Navy's competitive/breakout strategy.

GOAL: To involve industry-executives in supporting the Department of Defense increased competition program.

INITIATIVE NO.: B-006/Outstanding

SECDEF 10 PTS: #4

ACTION: Develop a course on spare parts breakout which is aimed at engineers.

GOAL: To provide engineers with the knowledge necessary to ensure the successful implementation of Navy's Breakout Program.

INITIATIVE NO.: B-007/Completed

SECDEF 10 PTS: #4

ACTION: Develop a policy as to when rights in data can be limited.

GOAL: To ensure that reprourement data is provided to the government to the maximum extent under the law.



INITIATIVE NO.: B-008/Completed

SECDEF 10 PTS: #4

ACTION: Develop a certification to be included in all solicitations for spare parts requiring contractors to indicate whether they (1) manufacture, (2) buy, (3) assemble, or (4) test the item being sold to the government.

GOAL: Field activities will utilize certification to ensure that the maximum level of competition is attained in the procurement of spare parts.

INITIATIVE NO.: B-009/Completed

SECDEF 10 PTS: #4

ACTION: Develop procedures for ICPs to utilize the information obtained as certifications in B-008 to promote both procurement from OEMs and competition.

GOAL: To make available during the reprocurement process, data relative to known sources of the material.

INITIATIVE NO.: B-010/Outstanding

SECDEF 10 PTS: #4

ACTION: Expand the warranty clause of weapon systems procurement packages to permit the government to charge the contractor the costs incurred for correcting any defective data package.

GOAL: To minimize the cost to the government of having incomplete and inaccurate data.

INITIATIVE NO.: B-011/Outstanding

SECDEF 10 PTS: #4

ACTION: Develop a clause for weapon systems contracts that gives the government the right to forward data packages to an independent (non-government) data review contractor to determine validity of proprietary data restrictions.

GOAL: To ensure that the government obtains rights to all data to which it is entitled.

INITIATIVE NO.: B-012/Outstanding

SECDEF 10 PTS: #6

ACTION: Ensure Acquisition Method Code(AMC) conferences are held to the maximum extent possible and as early as practicable. Breakout benefits in terms of numbers reviewed, codes assigned, estimated annual dollar demand and other pertinent data are to be reported on a monthly basis.

GOAL: To achieve the maximum extent of competition in future reprocurement actions.

INITIATIVE NO.: B-013/Outstanding

SECDEF 10 PTS: #4

ACTION: Propose a change to MIL-D-1000B to restore Category F drawings as a requirement under the MILSPEC.

GOAL: To obtain the maximum amount of technical data during the acquisition process.

INITIATIVE NO.: B-014/Completed

SECDEF 10 PTS: #6

ACTION: Develop a clause for weapon systems contracts whereby contractors are required to identify the cost for the government to acquire unlimited rights to reprocurment technical data, and are required to identify the extent to which they are using standard commercial products.

GOAL: To ensure that the government has the maximum amount of technical data and other information in order to increase the level of competition during the reprocurment of spare parts.

INITIATIVE NO.: B-015/Completed

SECDEF 10 PTS: #6

ACTION: Develop a clause for weapon systems contracts requiring contractors to identify the OEM and the OEM part numbers of purchase parts.

GOAL: To increase to the maximum extent competition in the procurement of spare parts.

INITIATIVE NO.: B-016/Completed

SECDEF 10 PTS: #6

ACTION: Provide three technical data packages that are noncompetitive due to proprietary legends - packages to be forwarded to ASN(S&L).

GOAL: To provide ASN(S&L) with examples of the problems encountered in obtaining data rights.

INITIATIVE NO.: B-017/Cancelled

SECDEF 10 PTS: #6

ACTION: Develop and test a procedure to make breakout of spare parts a factor in source selection for major systems. Develop incentive arrangements to reward contractors for cost savings generated by their efforts.

GOAL: To obtain the lowest possible price for spare parts.

INITIATIVE NO.: B-018/Completed

SECDEF 10 PTS: #4

ACTION: Develop contract data provisions which, as appropriate, reduce contractors' proprietary rights in data.

GOAL: To increase the amount of technical data available to the government.

INITIATIVE NO.: B-019/Completed

SECDEF 10 PTS: #6

ACTION: Establish a management information system to track the success of the conversion from contractor recommended procurement codes to fully competitive procurement status so that the benefits of the program are established versus the cost to administer it.

GOAL: To quantify the benefits of the Breakout Program.

INITIATIVE NO.: B-020/Completed

SECDEF 10 PTS: #4

ACTION: Research contractor licensing arrangement (such as that between Sikorsky and Agusta) of top 20 contractors.

GOAL: To identify licensing arrangements which can be utilized for direct procurement from the OEM.

INITIATIVE NO.: B-021/Outstanding

SECDEF 10 PTS: #6

ACTION: Develop a contractual provision permitting deferred ordering of engineering data that required contractor maintenance of engineering data through post production.

GOAL: To ensure that current technical data is available from the contractor for reprourement.

INITIATIVE NO.: B-022/Completed

SECDEF 10 PTS: #6

ACTION: Ensure an increaser in and monitor the number of items that are AMC coded.

GOAL: To promote competition.

INITIATIVE NO.: B-023/Outstanding

SECDEF 10 PTS: #6

ACTION: Develop policy document for ICPs/HSCs defining requirement for obtaining technical data and Level II/III drawings for new weapon system acquisitions.

GOAL: To provide definitive guidance to ICPs and HSCs relative to obtaining technical data and Level II/III drawings.

INITIATIVE NO.: B-024/Completed

SECDEF 10 PTS: #6

ACTION: Include the acquisition of reprourement data as part of modification management.

GOAL: To ensure that data is acquired on spares for systems requiring modification.

INITIATIVE NO.: B-025/Completed

SECDEF 10 PTS: #10

ACTION: Ensure that all data files related to technical support and procurement of spares contain accurate and up-to-date information.

GOAL: To facilitate competition in the reprourement of spares.

INITIATIVE NO.: B-026/Outstanding

SECDEF 10 PTS: #4

ACTION: Establish procedures to request ACOs to provide lists of Navy managed items that contractors purchase complete from subcontractors and to screen these items for purchase breakout to the subcontractor.

GOAL: To expand the possible sources of spare parts.

INITIATIVE NO.: B-027/Completed

SECDEF 10 PTS: #4

ACTION: Periodically request lists of purchase-completed items and maintain records of breakout reviews of these items.

GOAL: To expand competition.

INITIATIVE NO.: B-028/Completed

SECDEF 10 PTS: #4

ACTION: Instruct personnel responsible for technical reviews of item purchases in the need for effective examination of drawings or other data in limited-screening purchase breakout efforts.

GOAL: To ensure that adequate review of technical data is performed.

INITIATIVE NO.: B-029/Completed

SECDEF 10 PTS: #4

ACTION: Develop a supply bailment policy to govern agreements whereby commercial activities can borrow parts of components from the ICPs inventories for the purpose of design replication, development of reprocurment data packages and subsequent offer to supply same.

GOAL: To define NAVSUP bailment policy and issue guidance.

INITIATIVE NO.: B-030/Completed

SECDEF 10 PTS: #4

ACTION: Develop and implement a management plan to evaluate and reduce unnecessary contract specifications and acquisition requirements.

GOAL: To eliminate unnecessary contract specifications and acquisition requirements.

INITIATIVE NO.: B-031/Completed

SECDEF 10 PTS: #10

ACTION: Implement a reverse engineering program to obtain reprocurment technical data packages suitable for competition.

GOAL: To use reverse engineering, when feasible, to develop technical data packages suitable for competition when otherwise sole source procurement is necessary.

INITIATIVE NO.: B-032/Outstanding

SECDEF 10 PTS: #6

ACTION: Define the policy for application of warranties to secondary items, and issue NAVSUPINST on warranty policy.

GOAL: To define NAVSUP warranty and issue guidance.

INITIATIVE NO.: B-033/Completed

SECDEF 10 PTS: #10

ACTION: In the area of repairables, pursue the possibility of expanding ICP use of ship repair contractors who are working for SUPSHIPS and Type Commanders into the ICP repair base.

GOAL: To increase the competitive base and assure fair and reasonable costs are incurred in repair contracts.

INITIATIVE NO.: B-034/Completed

SECDEF 10 PTS: #10

ACTION: Propose changes to MIL-STD 129 to include marking of unit packages with actual manufacturers FSCM and Part Number.

GOAL: To aid in breakout to OEM by requiring identification when a spare part is procured from a manufacturer other than the design activity.

#### COMPETITION (C)

INITIATIVE NO.: C-001/Completed

SECDEF 10 PTS: #4

ACTION: Establish FY84 competition goals for major field procurement activities.

GOAL: To increase the number of procurements made on a competitive basis.

INITIATIVE NO.: C-002/Completed

SECDEF 10 PTS: #1&3

ACTION: Issue FLASH from COMNAVSUP on competition.

GOAL: To make field activities aware of the importance of, and level of attention being given to, efforts to increase competition.

INITIATIVE NO.: C-003/Completed

SECDEF 10 PTS: #6

ACTION: Review competitive procurement for Interim Support Item List (ISILs).

GOAL: To provide an explanation of the ISIL concept and explore the pros/cons of competitive procurement for ISILs.

INITIATIVE NO.: C-004/Completed

SECDEF 10 PTS: #4

ACTION: Strengthen the process for inspection and acceptance of technical data by cognizant engineers/technicians. Require engineers/technicians to validate with recognizable annotation that they were reviewed for adequacy and completeness.

GOAL: To ensure that the advantages of competition are fully exploited by having adequate technical information available.

INITIATIVE NO.: C-005/Cancelled

SECDEF 10 PTS: #4

ACTION: Publish a system listing of sole source items broken out to competition for use by all field contracting activities.

GOAL: To provide field contracting activities with the information to increase the level of competitive procurements.

INITIATIVE NO.: C-006/Completed

SECDEF 10 PTS: #1

ACTION: Provide guidance to field activities on incorporation of competition/pricing goals into Merit Pay System (MPS) objectives and the Basic Performance Appraisal Program (BPAP).

GOAL: To bring the importance of the competition/spares pricing to the individual employee level.

INITIATIVE NO.: C-007/Completed

SECDEF 10 PTS: #4

ACTION: Appoint Competition Advocates at all activities with \$25,000 authority and establish a "Competition Advocate of the Quarter" award program.

GOAL: To establish a focal point for all efforts related to increasing competition and improving spares pricing, and to officially recognize those individuals who have made a significant contribution to those efforts.

INITIATIVE NO.: C-008/Completed

SECDEF 10 PTS: #4

ACTION: Conduct test of adding applicable MILSPEC/MILSTD numbers and method of fabrication information to Commerce Business Daily announcements.

GOAL: To increase to number of potential sources for procuring spare parts.

INITIATIVE NO.: C-009/Completed

SECDEF 10 PTS:

ACTION: Develop in-house operating procedures whereby the Competition Advocate is informed of all unsolicited proposals for sole source items so that identified source of supply is considered on future procurement.

GOAL: To expand the possible sources from which to procure spare parts.

INITIATIVE NO.: C-010/Completed

SECDEF 10 PTS: #1

ACTION: Revise position descriptions and establish new critical elements and performance standards to motivate employees to reduce costs and increase competition.

GOAL: To bring the importance of competition/spares to the individual employee level.

INITIATIVE NO.: C-011/Completed

SECDEF 10 PTS: #8

ACTION: Develop and promulgate uniform guidance for approval of alternate manufacturing sources for items with restrictive acquisition method codes.

GOAL: To identify additional manufacturing sources.

INITIATIVE NO.: C-012/Completed

SECDEF 10 PTS: #4

ACTION: Initiate action to improve the response time in which Navy Engineering Support Activities (ESAs) respond to requests for technical data from DLA Inventory Control Points

GOAL: To ensure that the ICP managing the item has sufficient information to promote competition and to procure the correct item.

INITIATIVE NO.: C-013/Completed

SECDEF 10 PTS: #3

ACTION: Develop and implement procedures to review Acquisition Plans (APs) and business clearances for an adequate "Spare Parts Annex" section.

GOAL: To assess the adequacy of provisions for acquiring technical documentation for spares competition/breakout.

INITIATIVE NO.: C-014/Completed

SECDEF 10 PTS: #3

ACTION: COMNAVSUP meet with major Navy suppliers to address spares pricing and cost issues.

GOAL: To interface with industry in the area of increasing competition and fair pricing.

INITIATIVE NO.: C-015/Completed

SECDEF 10 PTS: #3&6

ACTION: ICPs prepare a Command Competition Advocate Pamphlet that includes a section on availability of projected buy requirements listing. Pamphlet to be included with local publications on how to do business with the ICP, "Selling to the Military", and for pick-up.

GOAL: Advertise availability of projected buy listings to support generating second sources and competition.

INITIATIVE NO.: C-016/Cancelled

SECDEF 10 PTS: #3

ACTION: Define and establish "Model Business Relationships" with major weapons systems manufacturing which we are dependent on for nonstandard/standard repair parts.

GOAL: To establish better relationships with companies such as Grumman.

## METHOD OF PROCUREMENT (MP)

INITIATIVE NO.: MP-001/Completed

SECDEF 10 PTS: #6

ACTION: Continue action under the Spare Acquisition Integrated with Production (SAIP) and Timely Spares Provisioning (TSP) programs.

GOAL: To reduce the overall cost of procuring spare parts.

INITIATIVE NO.: MP-002/Completed

SECDEF 10 PTS: #6

ACTION: Exploit combined purchased for Navy/Foreign Military Sales (FMS) customers.

GOAL: To reduce the cost of producing spare parts.

INITIATIVE NO.: MP-003/Completed

SECDEF 10 PTS: #6

ACTION: Centralize procurement of fleet unit non-standard CASREP requisitions at SPCC.

GOAL: To reduce the overall cost of procuring these spare parts and to provide more responsive service to fleet customers.

INITIATIVE NO.: MP-004/Completed

SECDEF 10 PTS: #6

ACTION: Review the use of unpriced orders with the goal of reducing the total number issued; assure that 98 percent of unpriced orders are definitized within six months of issue and 100 percent definitized within 12 months.

GOAL: To reduce the ultimate cost of spare parts.

INITIATIVE NO.: MP-005/Completed

SECDEF 10 PTS: #6

ACTION: Expand use of multi-year contracts for spares.

GOAL: To reduce the overall cost of spare parts.

INITIATIVE NO.: MP-006/Completed

SECDEF 10 PTS: #6

ACTION: Develop and establish automated bidders mailing lists at procurement activities.

GOAL: To facilitate increased competition for spare parts.

## PRICING (P)

INITIATIVE NO.: P-001/Completed

SECDEF 10 PTS: #6

ACTION: Send message to DLA requesting review of pricing techniques.

GOAL: To ensure that the lowest possible prices are being paid for spare parts.



INITIATIVE NO.: P-002/Completed

SECDEF 10 PTS: #9

ACTION: Send message to DCAA requesting operational audit of Gould and determination if other contractors have pricing techniques similar to Gould's.

GOAL: To ensure that the government is paying the lowest reasonable price for an item.

INITIATIVE NO.: P-003/Completed

SECDEF 10 PTS: #6

ACTION: Phase out redeterminable Basic Ordering Agreements.

GOAL: To ensure that the Navy obtains the best possible price for an item at the time it is ordered.

INITIATIVE NO.: P-004/Completed

SECDEF 10 PTS: #4

ACTION: Assign personnel to do value engineering review of spare parts purchased.

GOAL: To increase the level of value engineering performed at Navy contracting activities.

INITIATIVE NO.: P-005/Completed

SECDEF 10 PTS: #6

ACTION: Review Navy policy on reliance on DCAS to negotiate prices and prepare a point paper summarizing results of review and recommending policy changes as required.

GOAL: To assess the need for policy change.

INITIATIVE NO.: P-006/Completed

SECDEF 10 PTS: #6

ACTION: Publish Field Contracting Alert concerning allocation of overhead to spare parts.

GOAL: To advise field contracting activities to monitor contractors' method of overhead allocation to spare parts.

INITIATIVE NO.: P-007/Completed

SECDEF 10 PTS: #10

ACTION: Request the Navy Postgraduate School, Monterey to prepare an analysis of Navy cost to procure material.

GOAL: To ascertain the cost to procure material, including cost for stock point to receive and issue. Cost computed will be available for use in other analyses concerning overall spares acquisition process.

INITIATIVE NO.: P-008/Completed

SECDEF 10 PTS: #4

ACTION: Analyze prices of NSN material bought locally by a stock point and develop lessons learned.

GOAL: To assess the impact relative to spare parts prices of locally procured spares.

INITIATIVE NO.: P-009/Continuing

SECDEF 10 PTS: #6

ACTION: Establish more realistic initial estimated prices for initial spare parts and consolidate initial buy quantities of provisioned items.

GOAL: To minimize the impact of inaccurate prices on the material budgeting process and to ensure economies are realized during the initial buy process.

INITIATIVE NO.: P-010/Completed

SECDEF 10 PTS: #10

ACTION: Provide buyers with visibility of all interchangeable part numbers within a given family group.

GOAL: To identify possible substitute items and to identify less costly items.

INITIATIVE NO.: P-011/Completed

SECDEF 10 PTS: #4

ACTION: Identify and attack instances where Navy is paying interdivisional mark-up on spares.

GOAL: To reduce the cost of spare parts.

INITIATIVE NO.: P-012/Completed

SECDEF 10 PTS: #6

ACTION: Provide policy guidance to NFCS activities to ensure that the government is charged no more than a vendor would charge its best customer.

GOAL: To achieve the best possible fair price.

INITIATIVE NO.: P-013/Completed

SECDEF 10 PTS: #10

ACTION: Increase awareness of Price Fighter mission.

GOAL: To have all contracting personnel, as well as end users, aware of the Navy Price Fighters mission, and informed of cost cutting tips learned by the Price Fighter Group.

INITIATIVE NO.: P-014/Completed

SECDEF 10 PTS: #6

ACTION: Conduct test of Price Fighter data available to buyers on 6-10 cases selected by the ICPs.

GOAL: Determine how Price Fighter data can benefit buyers.

#### PRICE SURVEILLANCE (PS)

INITIATIVE NO.: PS-001/Completed

SECDEF 10 PTS: #1-10

ACTION: Prepare ALNAV covering pricing/competition.

GOAL: To establish CNO policy in support of SECDEF's TEN POINT PLAN.

INITIATIVE NO.: PS-002/Completed

SECDEF 10 PTS: #5

ACTION: In conjunction with the implementation of the stock funding of Aviation Depot Level Repairables (AVDLRs), sensitize Navy users regarding the reasonableness of spare parts prices.

GOAL: To avoid paying exorbitant prices for Navy requirements.

INITIATIVE NO.: PS-003/Continuing

SECDEF 10 PTS: #3

ACTION: Mount proactive media coverage of positive actions taken on pricing/competition front.

GOAL: To keep the public informed of actions taken to improve spare parts pricing.

INITIATIVE NO.: PS-004/Continuing

SECDEF 10 PTS: #1

ACTION: Recognize military and civilian employees who achieve significant price reductions.

GOAL: Through recognition of these employees, the importance of improved spares pricing will be brought to the attention of all personnel.

INITIATIVE NO.: PS-005/Completed

SECDEF 10 PTS: #6

ACTION: Develop NAVSUP capability to do value analysis (should cost analysis) of material. "PRICE FIGHTER"

GOAL: To identify items which are overpriced.

INITIATIVE NO.: PS-006/Completed

SECDEF 10 PTS: #5

ACTION: Establish a formal program to conduct in-depth reviews of "out of tolerance" prices.

GOAL: To identify unwarranted increase in spare parts prices.

INITIATIVE NO.: PS-007/Completed

SECDEF 10 PTS: #5

ACTION: Establish new Price Analysis filters in the UICP program GO2.

GOAL: To ascertain the best parameter(s) for the program.

INITIATIVE NO.: PS-008/Completed

SECDEF 10 PTS: #5

ACTION: Direct field activities to identify cases to cognizant engineering activities where intrinsic value is not consistent with established price.

GOAL: To provide a mechanism whereby personnel in the field can identify questionable spare parts prices which should be investigated.

INITIATIVE NO.: PS-009/Completed

SECDEF 10 PTS: #6

ACTION: Establish system to monitor Contract Administer Office (CAO) pricing of BOA orders originating by the ICPs.

GOAL: To identify pricing and response time difficulties created by CAOs.

INITIATIVE NO.: PS-010/Cancelled

SECDEF 10 PTS: #10

ACTION: Issue quarterly report cards to Administrative Contracting Offices (CAOs) DCAS and DLA HQ on timeliness of pricing actions.

GOAL: To advise DCAS and DLA HQ of their performance so that action may be taken to improve performance where warranted.

INITIATIVE NO.: PS-011/Completed

SECDEF 10 PTS: #6

ACTION: Perform price comparison test of items priced prospectively vs. after award and report results.

GOAL: To ascertain impact of pricing techniques on final price of item.

INITIATIVE NO.: PS-012/Completed

SECDEF 10 PTS: #10

ACTION: Conduct random sample of 125 items to determine if prices paid increased or decreased.

GOAL: To ascertain recent trends in the prices of spare parts.

INITIATIVE NO.: PS-013/Completed

SECDEF 10 PTS: #10

ACTION: Conduct an analysis of 30 items on draft audit report 3AP-021 for which prices increased by 100 percent or more.

GOAL: To assess validity of prices.

INITIATIVE NO.: PS-014/Completed

SECDEF 10 PTS: #4

ACTION: Develop a program which will compare and display the prices paid for locally purchased stock numbered (AAC "L") items reported by NFCS activities.

GOAL: To provide item managers and field contracting personnel with a tool for determining the lowest price available.

INITIATIVE NO.: PS-015/Completed

SECDEF 10 PTS: #4

ACTION: Receive, review and reply to reports of excessive pricing received from Navy customers.

GOAL: To challenge DLA and/or other Services' excessive price increases.

INITIATIVE NO.: PS-016/Completed

SECDEF 10 PTS: #1

ACTION: Review, and refine if necessary, NAVSUP's employee recognition program.

GOAL: In view of emphasis being placed on spare parts procurement and in support of initiative PS-004, the NAVSUP employee recognition program must be adequately implemented.

INITIATIVE NO.: PS-017/Completed

SECDEF 10 PTS: #6

ACTION: Develop criteria for evaluating the PRICE FIGHTER program to include appropriate cost benefit analyses and alternatives for expanding capabilities.

GOAL: To objectively evaluate the results of the pilot PRICE FIGHTER team.

INITIATIVE NO.: PS-018/Completed

SECDEF 10 PTS: #5

ACTION: Develop and promulgate to the NFCS a checklist of the minimum requirements for documentation of price reasonableness.

GOAL: To provide guidance to the field to assist them in pricing.

INITIATIVE NO.: PS-019/Completed

SECDEF 10 PTS: #10

ACTION: Determine if FPI/NIB prices should be challenged through formal procedures when the item can be bought from a commercial source at a lower price.

GOAL: To assure fair and reasonable prices are paid for all items.

INITIATIVE NO.: PS-020/Completed

SECDEF 10 PTS: #10

ACTION: Conduct 3 month pilot test hotline providing real time "should cost" estimates within a responsible timeframe for live buys at the following activities: NSC Norfolk, NAS Norfolk, NAS Oceana. Assess the value of Price Fighter interface with buying activities and provide recommendations for permanent program.

GOAL: To provide buyers with should cost analyses to assist in negotiating fair and reasonable prices.

#### CONTRACT MANAGEMENT (CM)

INITIATIVE NO.: CM-001/Completed

SECDEF 10 PTS: #7

ACTION: Perform in-depth review of Naval Training and Equipment Center (NTEC) contracts.

GOAL: To recommend corrective action to NTEC contracting procedures.

INITIATIVE NO.: CM-002/Completed

SECDEF 10 PTS: #9

ACTION: Reduce NTEC contracting authority; provide detailed guidance to NTEC/NSC Charleston on transfer of contracting authority.

GOAL: To suspend the awarding of contracts over \$500K pending resolution of NTEC contract procedure problems.

INITIATIVE NO.: CM-003/Completed

SECDEF 10 PTS: #9

ACTION: Elevate pricing and competition to special interest items on Contract Management Reviews (CMRs).

GOAL: To ensure that pricing and competition areas are given particular attention during CMRs.

INITIATIVE NO.: CM-004/Completed

SECDEF 10 PTS: #7&8

ACTION: Accept refunds from contractors who have overcharged. Recommend suspension/debarment of vendors defrauding the government.

GOAL: To solicit refunds where deemed appropriate, and to penalize vendors when such action is considered necessary.

INITIATIVE NO.: CM-005/Completed

SECDEF 10 PTS: #6

ACTION: All contracts for spare parts and repair kits of \$25,000 or more for other than standard commercial parts will contain a value engineering incentive clause.

GOAL: To comply with DOD Directive 5010.8.

INITIATIVE NO.: CM-006/Completed

SECDEF 10 PTS: #2

ACTION: Ensure all Naval Reserve Officers assigned to Navy field Contracting System activities are briefed on standards of conduct, particularly in regard to conflict of interest.

GOAL: To preclude any impropriety or the appearance of impropriety which may result from Reservists performing functions within the contracting organization.

INITIATIVE NO.: CM-007/Outstanding

SECDEF 10 PTS: #6

ACTION: Initiate change to the existing Cost Accounting Standards (CAS) which allow contractors to allocate overhead/G&A burdens to spares orders which in many instances are substantially disproportionate to the value which the contractor has added.

GOAL: To assure fair and reasonable prices are paid for all items.

### TRAINING (T)

INITIATIVE NO.: T-001/Completed

SECDEF 10 PTS: #9

ACTION: Arrange for the Naval Investigative Service (NIS) to train CMR teams, including ICP internal review teams, in fraud detection techniques.

GOAL: To ensure that contracting personnel are aware of ways in which to detect contractor fraudulent practices.

INITIATIVE NO.: T-002/Completed

SECDEF 10 PTS: #10

ACTION: Review training/qualification criteria for promotion in 1102/1105 series and develop new criteria as required.

GOAL: The emphasis being placed on improving competition and spares pricing dictates that all procurement personnel be fully qualified before assuming more responsible positions.

INITIATIVE NO.: T-003/Completed

SECDEF 10 PTS: #10

ACTION: Mandate semi-annual cost/price analysis courses to be held on-site at ICPs.

GOAL: To ensure that contracting personnel are aware of most recent cost/price analysis techniques.

INITIATIVE NO.: T-004/Completed

SECDEF 10 PTS: #10

ACTION: Require 1102 personnel to take refresher cost/price analysis course every three years.

GOAL: To keep the personnel in the 1102 series current with cost/price techniques.

INITIATIVE NO.: T-005/Completed

SECDEF 10 PTS: #10

ACTION: Review requirements for issuing warrants to Contracting Officers.

GOAL: To ensure that only those fully qualified individuals be issued warrants.

### AUTOMATED SYSTEMS (AS)

INITIATIVE NO.: AS-001/Outstanding

SECDEF 10 PTS: #6

ACTION: Increase automation of procurement process.

GOAL: To increase the ability of the NAVSUP field contracting activities to manage the procurement process through automation.

INITIATIVE NO.: AS-002/Outstanding

SECDEF 10 PTS: #6

ACTION: Conduct a review of technical data access procedures utilized by the ICPs.

GOAL: Develop recommendation for improving the processes.

INITIATIVE NO.: AS-003/Outstanding

SECDEF 10 PTS: #6

ACTION: Develop an automated system which will provide buyers with on-line access to information such as MILSPECS, price history and pictorial presentations to assist in the declericalization of procurement.

GOAL: To reduce the clerical approach involved in procurement and to provide buyers with required information.

INITIATIVE NO: AS-004/Outstanding

SECDEF 10 PTS: #6

ACTION: Implement Navy Print On Demand System (NPODS) at the Naval Publications and Forms Center(NPFC).

GOAL: NPODS will enable NPFC to provide potential contractors with applicable specifications and standards more responsively and at less cost than at present.

INITIATIVE NO.: AS-005/Outstanding

SECDEF 10 PTS: #6

ACTION: Convert data repository technical files supporting ICP reprocurement to an electronic form.

GOAL: To provide buyers and item managers with technical data in a more timely manner.

INITIATIVE NO. AS-006/Completed

SECDEF 10 PTS: #6

ACTION: Implement Military Standard Contract Administration Procedures (MILSCAP) at Navy activities.

GOAL: To enhance the Navy's efforts to improve the spare parts acquisition process and to facilitate the transmission and use of data between and among DOD components.

#### RESOURCES (R)

INITIATIVE NO.: R-001/Completed

SECDEF 10 PTS: #10

ACTION: Increase resources (funds/end strength) to enhance competition and pricing at NAVSUP procurement activities.

GOAL: To enable NAVSUP activities to buy spares more effectively.



INITIATIVE NO.: R-002/Completed

SECDEF 10 PTS: #10

ACTION: Provide additional resources to ASO/SPCC and Hardware Systems Commands to increase breakout efforts.

GOAL: To enable the ICPs to achieve high levels of competition in spares procurement.

INITIATIVE NO.: R-003/Completed

SECDEF 10 PTS: #10

ACTION: Increase FY84/85 funding to accelerate the implementation of the Automated Procurement and Data Entry System (APADE) at NSCs and NRCCs.

GOAL: To declericalize the procurement process at field activities.

INITIATIVE NO.: R-004/Completed

SECDEF 10 PTS: #10

ACTION: Obtain FY84/85 R&D funds to automate data repositories at NAVSUP activities; i.e., NPODS at NPFC.

GOAL: To reduce the manual workload associated with data retrieval.

INITIATIVE NO.: R-005/Completed

SECDEF 10 PTS: #10

ACTION: Provide funds and end strength to staff a "PRICE FIGHTER" value analysis team.

GOAL: To develop an intrinsic value analysis capability.

INITIATIVE NO.: R-006/Completed

SECDEF 10 PTS: #10

ACTION: Provide resources to increase Value Engineering efforts.

GOAL: To improve Value Engineering programs at Navy ICPs.

INITIATIVE NO.: R-007/Completed

SECDEF 10 PTS: #10

ACTION: Provide funds for increased training of procurement personnel.

GOAL: To upgrade the expertise in spares acquisitions.

INITIATIVE NO.: R-008/Completed

SECDEF 10 PTS: #10

ACTION: Review staffing of procurement functions at non-NAVSUP field contracting activities.

GOAL: Identify shortfalls where they exist and pursue additional resources where required.

INITIATIVE NO.: R-009/Completed

SECDEF 10 PTS: #10

ACTION: Develop and implement a system to identify and track the cost of, and savings attributed to the major Project BOSS programs such as Breakout, challenges to proprietary legends, etc.

GOAL: To be able to document actual costs and savings of Project BOSS.

## APPENDIX C

### INDIVIDUALS CONTRIBUTING TO THE RESEARCH EFFORT

The researcher, through visits and phone conversations, interviewed numerous procurement and technical personnel at various field activities. The following is a partial list as some of those interviewed requested anonymity.

Anastasi, R., CDR, SC, USN, Naval Supply Center, Pudget Sound, Washington.

Anderson, M., Navy Regional Contracting Center, Washington, D.C.

Brown, B., (Code 5502B), Naval Supply Systems Command, PML 550, Washington, D.C.

Cartwright, D., Ships Parts Control Center, Mechanicsburg, Pa.

Cohen, J., (NAVSUP 024E), Naval Supply Systems Command, Washington, D. C.

Dalo, J., BOSS/Competition Program Management Division, Philadelphia, Pa.

Desmaret, B., Navy Regional Contracting Center, Philadelphia, Pa.

Geesaman, R., (Code OOC/056), Ships Parts Control Center, Mechanicsburg, Pa.

Guyer, D., CDR, SC, USN, (NAVSUP 0473), Naval Supply Systems Command, Washington, D.C.

Hayward, D., CAPT, SC, USN, ASN(S&L), Director of Supply Support, Washington, D.C.

Jackson, J., CDR, SC, USN, Former Director, Fleet Material Support Office, Mechanicsburg, Pa.

Keller, F., CDR, SC, USN, Code 5502, Naval Supply Systems Command, PML 550, Washington, D.C.

Marhetka, J., (Code OOC/056), Ships Parts Control Center, Mechanicsburg, Pa.

McArthur, K., (Competition Advocate), Naval Supply Center, Oakland, Ca.

McWherter, M., CDR, SC, USN, Director, Contracting Department, Naval Supply Center, San Diego, Ca.

Metzel, W., Competition Division Director, Aviation Supply Office, Philadelphia, Pa.

Morris, J., (NAVSUP 024E), Naval Supply Systems Command, Washington, D.C.

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